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CounterPoint

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THINK DIFFERENTLY AND GROW

Be resilient in today's changing marketplace and ***challenge the industry status quo.***

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MARCH **2018**

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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.

CORRECTION: *The Metric of the Month in the February 2018 edition of CounterPoint incorrectly color coded High Growth Agencies and All Agency Average. High Growth Agencies should be blue and Average should be green.*

MARCH **SPOTLIGHT**

TAX REFORM **SUMMARY**

The Tax Cuts and Jobs Act H.R.1 made drastic changes to the old tax code. The result, we believe, will cause further rate softening and a hit to agency value. At Marsh, Berry & Company, Inc. ("MarshBerry"), we've taken a deep dive into what tax reform might mean for those with ownership in insurance agencies and brokers.

1 FURTHER SOFTENING

The hope of hardening Property & Casualty (P&C) rates after the 2017 catastrophes were dashed when it became obvious that even after the hit to surplus, the average carrier remains over capitalized by our estimate of 20%.[1] To exacerbate the problem, our internal calculations reflect that the average carrier will see a 21.5% jolt in net income resulting from the corporate tax reduction from 35% to 21%. Carriers are flush with capital and earnings. You are more likely to see President Trump stop tweeting than to see rate tightening.

2 HURRY UP AND WAIT

Pass-through entities now enjoy a favorable shift in tax brackets, a cut in tax rates and a 20% deduction on "qualified business income." However, for a business considered a "Specified Service Trade Business," the 20% deduction is phased out at a fairly low level. Insurance agencies/brokers were not specifically carved out of the definition of a "Specified Service Trade Business," (see the Tax Cuts and Jobs Act ["HR1"]) like architects and engineers. And, the word "insurance" was included in the definition. So, we believe insurance distributors are a de facto part of the group where the deduction will phase out. At least for now. Any hope of being carved out versus phased out will need to follow clarity through legislation that has yet to be put on the table. We can't and won't give tax advice, but even those that can, and do, seem confused.

3 VALUATION DECLINE

If we are all lucky, valuations could hold flat for a little while. But if they do, it will be for 12 months at best, in our opinion. We believe acquisition demand will remain strong, but pricing will soon start to decline and will continue to fall at a fairly consistent rate. The unprecedented run up in pricing during the past decade was a byproduct of the tidal wave of private equity (PE)-backed broker buyers. PE-backed brokers ramped up from one deal in 2006 to more than 300 during 2017, which was more than all of the other buyer segments combined. Today, there are 24 PE-backed brokers. The fuel that has propelled this group and value is the heavy amount of debt they have been able to raise. In addition, many don't pay tax given negative taxable income. They operate at high EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization) margins, but those margins are heavily offset by amortization of intangibles on the hundreds of deals that have been closed.

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[1]*MarshBerrys' opinion and estimate is derived from industry articles such as Insurance Information Institute (III) - First Nine-Months of 2017 and Insurance Journal. The III reports that surplus of $719.4 billion is the highest level ever and the ratio of twelve-month trailing net premiums written to surplus is high at 0.76, both indicating solid capital adequacy.*

MARCH **FEATURE**

THINK DIFFERENTLY AND GROW

Now is an inquisitive time in the insurance industry — Merger & Acquisition (M&A) activity is positioning the owners of profitable, successful agencies to realize the value of running a progressive business. And, we believe, 2018 shows no sign of a lull in the acquisition arena, with investors and growing agencies looking to the market for possible opportunities to expand.

by ***Eric Hallinan,*** Vice President

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ADDING TO THE STEADY RUSH OF M&A IS INQUIRY FROM A TECHNOLOGY STANDPOINT. **WE'RE TALKING ABOUT INSURTECH — TECHNOLOGIES THAT COULD OPTIMIZE THE WAY WE DELIVER SERVICES.**

For now, there's a lot of buzz — but we're watching venture capital dollars enter at various links in the value chain, demonstrating how tech could evolve components of that chain. InsurTech tools are expected to evolve the way we do business. We're just not exactly sure who the key players will be yet.

The big question is: how are you preparing your business for change? How will you try and capitalize on the potential advantages that InsurTech and new investors could bring to the industry? Is your agency resilient in this time of continuous change?

How do you thrive in today's dynamic market, and leverage the investor interest and evolutionary technology to elevate your business? What can insurance agencies and companies do during a time when companies like Uber, Netflix and Amazon are changing the face of business and challenging the status quo? Think Differently.

M&A Trendspotting

Understanding M&A activity and who's playing in the market today is essential so you can position your business to grow — and perpetuate or sell.

It's important to realize the value of your agency — what's your business truly worth? What is value, and what are buyers looking for in a business? This knowledge is not only essential for businesses that are interested in participating in M&A on the buy or sell side, but for agencies that want to continue their legacy. Optimizing your operation, across the board, will help position you to control the decision on what the future holds.

The reality is: firms that don't figure out how to survive in today's changing marketplace will likely get acquired. And firms that want to get acquired will also likely get acquired, because we see no sign of M&A slowing down in 2018. That said, we are seeing new types of private capital interested in investing in the insurance marketplace. And, there are more options — perpetuation alternatives — for agencies that want to preserve their legacies, with the introduction of innovative tools (including MarshBerry's iCAP — Integrated Continuity Alignment Plan).

***THE TAKE-AWAY:** Find out where your business stands in terms of value, understand what's happening in the M&A market, and determine how you'll act to position your business for success.*

The Power of Peer Exchange

What are other agencies doing to survive and prosper in today's changing market?

There's nothing more valuable than sharing best practices — what works, what doesn't. And, when we're held accountable by our peers, we get the good work done. Just think about the "gym buddy" that holds you accountable for showing up to work out. You're not going to bail if a friend is expecting you to show up (and work!). Peer exchange and benchmarking are powerful, and agencies that tap into those opportunities inherently will improve.

***THE TAKE-AWAY:** Sharing best practices with peers makes us all better. But how are you making the most of these experiences — what are you bringing to the conversation, and how can you leverage the knowledge of peers to make a difference in your business?*

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Find the Go-Getter

Who's sitting at your table? Do you find yourselves recruiting the same type of producer that delivers the same results — have you looked beyond the typical hiring pool to find the producer who's a go-getter and natural hunter?

Agencies can't afford to take an old-fashioned approach to talent. Why? Because the most important thing about your business is people. People drive growth. People push a business to succeed. People build relationships with clients. People are responsible for perpetuation.

So, who are the people in your agency? What is your talent strategy? (Yes, you should have one.)

***THE TAKE-AWAY:** Evaluate your talent pool and diversify your workforce in a way that will build your culture.*

Optimize Performance

No discussion about the future of a business is complete without a thorough investigation of performance.

Know your numbers. And, know what's impacting those numbers so you can make measurable, positive change. Double-digit growth and a 30% margin do not have to be mutually exclusive. In MarshBerry's opinion, you can grow by 15% and achieve a healthy profit — if you think differently and focus on execution.

***THE TAKE-AWAY:** Make the choice to grow and profit, understand your metrics and recognize what's necessary to raise the bar. Set goals, track performance — compare your numbers with those of your peers. Resilience takes discipline.*

Think Differently

We promise, change is good. It means progress — it's healthy.

But it also leaves businesses with an important decision: Will you adapt and grow more resilient, or continue with a same-old mentality and get stuck on the sidelines watching other players thrive in the excitement of the game?

We encourage you to think differently about your business. Think differently about talent, technology and success. Think differently about perpetuation and how you'll get there. Agencies that are always thinking adapt and thrive in times of dynamic change. ■

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METRIC OF THE MONTH

FIRST YEAR PRODUCTION PERSONNEL **TERMINATION RATE**

In last month's edition, we explored producer turnover over the last five years and how turnover for High Growth agencies differs from the Average. Another turnover-related metric that is important to monitor in conjunction with total turnover is the First Year Termination Rate.

This metric captures the number of production personnel hired and then terminated within the last twelve months as a percentage of total production personnel separations during the same time. A high first year termination rate could highlight one of two problems: difficulties with selecting the right candidate for the role or having challenges with the onboarding and training process. According to data from MarshBerry's proprietary financial management system, Perspectives for High Performance, the industry average First Year Termination Rate is currently 21%, compared to 27% for High Growth agencies. What's interesting to note is that although agencies with the highest organic growth tend to have a lower overall production turnover rate, their first-year termination rate is approximately 30% higher than the Average.

MARSHBERRY RELEASES ANNUAL

Market & Financial OUTLOOK REPORTS

MarshBerry has released its 32nd Annual Retail Market & Financial Outlook Report, as well as its 3rd Annual Specialty Distribution Market & Financial Outlook Report.

The Studies compile qualitative and quantitative information. Responses are anonymized and the findings are then summarized in a State of the Industry Outlook report.

The complete reports enable firms to highlight key trends from 2007–2017 with chapters addressing areas such as:

- External Factors
  - Economy
  - Market Dynamics
- Merger & Acquisitions*
- Growth
- Expense Management & Profit
- Operations & Productivity

FULL REPORTS ARE AVAILABLE TO PURCHASE ONLINE AT —
WWW.MARSHBERRY.COM/INDUSTRY-STUDIES

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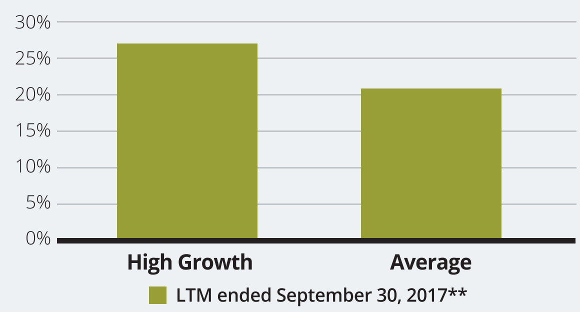
In MarshBerry's opinion, high growth agencies tend to have a well-developed onboarding process, coupled with specific thresholds to be met in order to receive or retain producer status. ■

AVERAGE FIRST YEAR PRODUCTION PERSONNEL TERMINATION RATE*



**Lower performance is better.*

LTM: Last Twelve Months

*Source: MarshBerry proprietary financial management system Perspectives for High Performance ("PHP"). **Results include the most recent available 2017 data through LTM ended 9/30/17. Data accessed 12/8/17. The number of separations includes both voluntary and involuntary terminations, but does not include job changes (e.g. a producer that moves into an executive role). High Growth Agencies are those within the top quartile of the database based on their organic growth results.*

A STEP TOWARD INSURTECH

Insurance agencies have a reputation for being slow to change. But the advent of "insurtech" is already forcing us all to focus more on technology and move quickly to show clients that we are working to simplify the insurance process.

The term insurtech is a portmanteau, or blending of the words "insurance" and "technology." It was coined to address the explosive growth of companies aimed at disrupting the traditional insurance model with technology solutions.

Agencies operating in both the digital and physical insurance space will be the most successful. Are you ready, willing, and able to change the way you operate to take advantage of technology and innovation?

FIRST delivers so much more than premium finance. We offer custom financial solutions to help you achieve growth and add value for your insureds. We can even help position you to be ready for the changes ahead.

Contact Executive Vice President Jim Miller at 847-572-4650 or jim.miller@firstinsurancefunding.com.

FIRST INSURANCE® FUNDING

A WINTRUST COMPANY

TAKE SMALL STEPS WITH PREMIUM FINANCE

Start simple with technology solutions offered through premium finance to improve workflow and increase efficiencies. Here are three things to look for and the right questions to ask about a premium finance partner's technology:

Look for a partner with a commitment to technology and innovation.

- ✓ How often do they update their account management system?
- ✓ Do they offer paperless notices and statements to both your agency and your insureds?
- ✓ Can your insured sign documents, including premium finance agreements, with electronic signature?
- ✓ Do they offer a solution for your workers' comp clients with seasonal workforces that allows insureds to make payments based on actual payroll?

Get integrated! Your agency management system (AMS) should be integrated with your premium finance partner's account management system. Not only does integrating improve your workflow and increase efficiencies, it allows you to offer premium finance with every quote and grow your agency revenue.

- ✓ Can they integrate with your custom AMS so you can offer premium finance options with pre-approved rates and terms to every property and casualty client with just a few clicks?
- ✓ Do they offer a solution that combines direct bill and premium finance for your program business and captive clients?
- ✓ If your website allows insureds to select and purchase premiums online, can they offer payment options, including premium finance, at the point of sale?

Focus on convenience and choice for your insureds.

- ✓ Do they offer a mobile app to manage their account and make payments?
- ✓ Is chat available for your insureds to ask questions while accessing their account information online?
- ✓ Do they offer credit cards for down payments? For monthly installments?
- ✓ What credit cards do they accept? AMEX? Discover? MasterCard? VISA?
- ✓ Do they offer credit card payments with no limit?

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WINTRUST

WE UNDERSTAND YOUR BUSINESS. Wintrust began more than 25 years ago with one community bank location and one premium finance company, FIRST Insurance Funding. Now a financial company with a number of divisions and bank locations, providing a variety of services, we can offer your agency so much more. No matter what goals you have, we can support you: it's in our foundation.

ThinkHR

Being different is easy.
Being more valuable wins business.

Not Just Different, Valuably Different

You're one of three finalists for a new piece of business and it's a close one coming down the stretch. The quotes are identical and each broker says they have the best service, expertise and technology. Most brokers move into the final stage of their strategy - hope and pray. But at this point, ThinkHR partner brokers step in and provide highly valuable, deeply engaging business solutions that ***instantly make your competition much more expensive.*** The end result - you ***win more because you're more valuable.***

Make it Painful to Leave

Your clients will quickly ***develop dependencies*** on our advisory, technology and training solutions, making it much harder and much more expensive to consider leaving you for another broker. The end result - you ***retain more because you're implementing sticky solutions.***

> "ThinkHR has turned out to be a great investment for our P&C and benefits division. The resources have played a major role in winning several pieces of business."
>
> James L.
> *P&C Producer, BI100 Broker*

Annual Savings by Industry

125,000 businesses representing every industry imaginable are trusting ThinkHR for solutions to their most common employee-based issues and challenges. Being a data-focused company, we track every interaction so ***our broker partners can position and deliver value like this...***

Retail $40,000/yr	Construction $44,500/yr	Non-Profit $40,500/yr	Manufacturing $33,000/yr	Healthcare $37,500/yr	Transportation $35,500/yr	Oil & Gas $45,500/yr
Agriculture $35,500/yr	Hospitality $41,000/yr	Education $37,500/yr	Technology $43,500/yr	Finance $30,500/yr	Real Estate $30,250/yr	Distribution $35,500/yr

thinkhr.com 4637 Chabot Drive, Suite 200, Pleasanton, CA 94588 | 855.271.1050

MARSHBERRY 360

INTELLIGENCE CONNECT GROWTH ADVISORY

think differently about growing your business!

THE AGENDA

7:30 – 8:15 am	**BREAKFAST**
8:15 – 8:30 am	**WELCOME & INTRODUCTIONS**
8:30 – 9:45 am	**STATE OF THE INDUSTRY: HOW DO WE THINK DIFFERENTLY?** Companies like Uber, Netflix and Amazon are changing the face of their business channels. The question becomes, what are those of us in the insurance vertical doing to challenge the status quo of the industry?
9:45 – 10 am	**NETWORKING BREAK**
10 – 10:40 am	**MERGER & ACQUISITION (M&A) HOT TOPICS & TRENDS*** You can't expect to come to a MarshBerry seminar and not get an update on M&A activity in the insurance industry. This session focuses on hot topics in pricing trends, deal structure, earn outs, and more.
10:40 – 11 am	**ALTERNATIVE PERPETUATION "TED TALK"** Realize the potential value of your agency without guilt, sacrifice, or confusion. New internal and external perpetuation options and what we think you should know to help optimize them.
11 – 11:10 am	**BREAK**
11:10 am – 12 pm	**INDUSTRY PANEL DISCUSSION: WHO'S SITTING AT THE TABLE?** Now, more than ever, we believe it's important to evaluate the people who make-up your talent pool — because growth, success and perpetuation are driven by the individuals in your firm. This panel focuses on diversity in the workforce and how you can try and grow your talent pool while continuing to build your culture.
12 – 1 pm	**LUNCH**
1 – 1:20 pm	**THE RISE OF THE CONSULTANT AND THE DEATH OF THE PRODUCER "TED TALK"** Employee Benefits (EB) distribution has changed forever. Many of the best firms in the industry have built a sustainable business model that makes EB brokerages one piece of a large Human Capital Management puzzle. Where are you on the continuum of shifting your business model from producer-focused to customer-focused? This session addresses the critical shift that has occurred within benefits firms in order to stay relevant in a highly competitive market.
1:20 – 2 pm	**SEARCHING FOR A SELF-STARTING, GO-GETTING PRODUCER WITH A HUNTER-MENTALITY** Recruiting talent within your organization is not a singular event. Ensuring you have the right individuals, in the right seats, requires a comprehensive (and continual) strategy. This session focuses on talent acquisition opportunities and challenges that can present themselves throughout the year.
2 – 2:30 pm	**NETWORKING BREAK**
2:30 – 3:00 pm	**THE POWER OF COMPARISON: BENCHMARKING AND PEER INTERACTION** The benefits of peer exchange and benchmarking are undeniable. In our experience, those that are held accountable by and to their peers often become more successful than the industry average[1]. This session focuses on types of peer exchange and how your firm can get the most out of it.
3 – 3:30 pm	**GROWTH & PROFIT: THE SECRET SAUCE** Who says double-digit growth AND a 30% margin have to be mutually exclusive?
3:30 – 4 pm	**EXECUTION IS NOT A COMMODITY** We'll wrap up the day with a review of key concepts and a Q&A roundtable with attendees.
4 – 5:30 pm	**NETWORKING COCKTAIL RECEPTION**

[1]As tracked by MarshBerry's proprietary, formalized financial management benchmarking system, Perspectives for High Performance (PHP)

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Register online at
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or call 800.426.2774

MEET THE SPEAKERS

John Wepler, Chairman & CEO

John joined Marsh, Berry & Company, Inc. (MarshBerry) in 1991 and is a frequent keynote speaker on organic growth management, valuation enhancement solutions, mergers and acquisitions (M&A*), business planning, ownership perpetuation and financial management at national conferences, agent association meetings, insurance carrier elite meetings and executive leadership forums. John has extensive knowledge in the area of merger & acquisition advisory*, having personally advised on over 200 M&A transactions since joining the firm. He currently maintains the Series 62, 79, 99, 24 and 63 FINRA Registrations through MarshBerry Capital, Inc., the affiliated FINRA-registered Broker/Dealer of Marsh, Berry & Co., Inc.

Phil Trem, Executive Vice President

Phil joined MarshBerry in 2010 and is a key contributor to MarshBerry's M&A* services division and is responsible for deal execution on both buy side and sell side transactions. He has extensive knowledge in the areas of agency perpetuation, due diligence, deal negotiation and integration planning. Aside from his responsibilities within the firm's M&A division, Phil is a regular contributor to MarshBerry's consulting practice. His consulting activities involve business planning, agency valuations, financial and organizational development, and compensation strategies. Phil currently maintains the Series 62, 79 and 63 FINRA Registrations through MarshBerry Capital, Inc., the affiliated FINRA-registered Broker/Dealer of Marsh, Berry & Co., Inc.

Curt Vondrasek, Senior Vice President

Curt Vondrasek joined MarshBerry in 2016 and is responsible for the strategy and direction of the Peer Exchange Networks, Talent Acquisition and Sales Performance business units. Curt sits on MarshBerry's Strategic Planning Committee, Sales Board, and leads the Networks Advisory Committee. He is also a frequent speaker at carrier, association, MarshBerry and industry events.

Eric Hallinan, Vice President

Eric Hallinan joined MarshBerry in 2011. His current consulting activities involve M&A* services, business planning, financial management consulting, due diligence, valuation services, compensation consulting, and ownership perpetuation. In addition, Eric is a public speaker, focusing on topics within the insurance industry, and he has contributed to various insurance related articles and industry publications. Eric currently maintains the Series 62, 79 and 63 FINRA Registrations through MarshBerry Capital, Inc., the affiliated FINRA-registered Broker/Dealer of Marsh, Berry & Co., Inc.

Tommy McDonald, Vice President

Tommy McDonald joined MarshBerry in 2008 and provides guidance and direction to help clients as they work to reach their goals. Tommy is also an active consultant within the Employee Benefits area at MarshBerry, which includes business development, key strategic relationship management, and project execution. Tommy is a frequent keynote speaker at national conferences, agent association meetings, insurance carrier elite meetings, and executive leadership forums. He has written articles for several leading insurance publications and is a frequent contributor to MarshBerry's proprietary publication, *CounterPoint.*

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2017 Insurance Agency **Transaction Multiples**

by ***Molly Connell,*** Senior Consultant
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and ***Dan Skowronski,*** Senior Vice President
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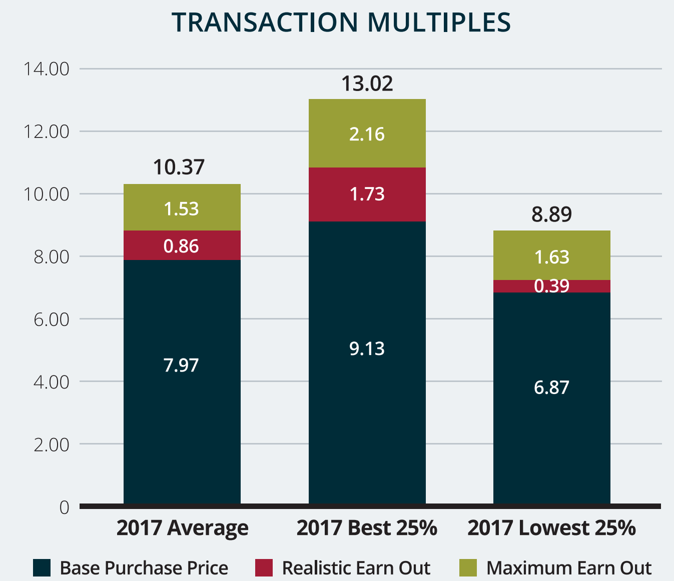
Over the last three years, the average purchase price, as a multiple of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) has not changed dramatically, based on MarshBerry's proprietary transaction database. However, when you dig deeper into the data there are notable changes in the top quartile of transactions referred to herein as the Best 25%. For the most part, the Best 25% includes agencies that are considered "best in class" on a number of levels.



Source: MarshBerry proprietary database. Data compiled from transactions in which we were directly involved, those from which we have detailed information, and transactions in the public record. Numbers may not add due to rounding. Past performance is not necessarily indicative of future results. Individual results may vary. Multiples calculated based on deals closed in 2017. Quartiles are determined based on the realistic purchase price as a multiple of EBITDA. ***Base Purchase Price:*** *The amount of proceeds paid at closing, including any escrow amounts for indemnification items plus amounts that the buyer may initially hold back, but which are paid as long as the sellers performance does not materially decline, or which may be paid at closing but are subject to a potential adjustment.* ***Realistic Earn Out:*** *The anticipated earn out to be achieved in the future based on a number of factors including seller historical and expected performance, buyer and seller realistic discussion of earn out metrics, etc.* ***Maximum Earn Out:*** *The additional earn out above the realistic level, that if achieved, would generate the maximum possible earn out payment.*

The average transaction value in 2017 was nearly 8.00 times EBITDA paid at close (the Base Purchase Price), another 0.86 times for a realistically achievable earnout, resulting in a Realistic Purchase Price of 8.84 times EBITDA. Adding in another 1.5 times on the maximum earnout possible, for a Maximum Purchase Price of 10.37 times EBITDA.

The Best 25% had a Base Purchase Price 15% higher than the Average agency, a Realistic Purchase Price 23% higher than the Average agency, and a Maximum Purchase Price 26% higher than the Average agency. The Lowest 25% had a Base Purchase Price 25% less than the Average agency, a Realistic and Maximum Purchase Price 18% and 14% less than the Average agency, respectively.

Your initial reaction may be to assume size is the driving force between the top and bottom quartile. However, based on our discussions with buyers, growth is just as much of a differentiator and sometimes more.

We often hear agencies value themselves comparable to the Best 25% when it comes to the external market. After all, who wants to believe they are "Average?" We took a deeper dive into what makes up the Best 25% and the Lowest 25%.

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PEER EXCHANGE **NETWORK NEWS**

by ***Christina M. Moran, Ph.D.,*** Business Unit Manager, Peer Exchange Networks

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We are only one month away from the Spring 2018 APPEX Summit at the Radisson BLU, Chicago. April 24-26 will be packed with content aimed at helping executives *Think Differently* in 2018. *Highlights include:*

STATE OF THE INDUSTRY: AROUND THE HORN

The state of the industry presentation provides an overview of the challenges and opportunities that are currently facing the insurance industry. This summit's session will be conducted in an "Around the Horn" format where panelists will answer targeted questions regarding the industry, and the audience will award points based on the quality and value of each response.

DEFINING & EXECUTING STRATEGY: THE 4 DISCIPLINES OF EXECUTION

Do you remember the last major initiative you watched die in your organization? Did it go down with a loud crash? Or was it slowly and quietly suffocated by other competing priorities? By the time it finally disappeared, it's likely no one even noticed. What happened? ***The 4 Disciplines of Execution*** (4DX) is a simple, repeatable, and proven formula for executing on your most important strategic priorities in the midst of the whirlwind. Join us for a keynote from the book's author himself, Chris McChesney of FranklinCovey.

BROKER ROUNDTABLES

Have a topic you'd like to discuss with brokers outside of your Strategic Issues Group (SIG)? Want to spend more time talking about a specific technology product, talent acquisition initiative, or value proposition enhancement? Join us for broker roundtables! Select your topic and join a table of brokers who'd like to discuss the same area of focus. A discussion guide will be provided and all tables will be asked to report out key takeaways to the broader group for maximal impact.

Register now! **www.MarshBerry.com/SP18APPEX**

INTERESTED IN INCREASING VALUE AND DRIVING GROWTH IN YOUR ORGANIZATION? To learn more about MarshBerry's Peer Exchange Networks, contact us at Networks@MarshBerry.com or 440.354.3230.

IS YOUR AGENCY CONSIDERED **BEST IN CLASS?**

Yes, the larger you get the harder it is to keep up the high growth numbers; but we have found agencies that reinvest in the organization and create a process-driven sales approach can attain consistent high growth numbers.

How are you driving consistent, profitable growth in your agency?

BEST IN CLASS CHARACTERISTICS

	TOP QUARTILE	LOWEST QUARTILE
Average Revenue	$10M+	Less than $3M
Average EBITDA	30%+	30%+*
Average Prior Year Actual Commission & Fee Growth Rate	14%	4%
Acquisition Type	Platform / Stand Alone	Stand Alone / Roll In

Characteristics based upon a detailed review of transactions in the top quartile and the lowest quartile. These are not all inclusive, but rather some of the key areas that are important to determining value. Both the top quartile and the lowest quartile had a fairly even dispersion of Employee Benefits & Consulting (EB), Property & Casualty (P&C) and Multi-Line agencies (i.e., those agencies that have both EB And P&C).

**Includes roll-ins, which often have cost savings and synergies resulting in a higher level of profitability.*

Source: MarshBerry proprietary deal database. Data for deals that closed 1/1/2017-12/31/2017.

Taking a New Look at **Recording Revenue**

by ***Wayne Walkotten,*** Executive Vice President
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As your accountants likely have mentioned, there are big headaches coming to agency Chief Financial Officers in regard to recording revenue in 2018.

Effective January 1, 2018, for calendar year non-public companies*, the Accounting Standards Board issued new revenue recognition rules. However, this wasn't just for insurance agents and brokers, but the Accounting Standards Codification 606 ("ASC606") was promulgated to bridge the inconsistencies between the Financial Accounting Standards Board ("FASB") with United States GAAP ("Generally Accepted Accounting Principles") and International Accounting Standards Board's ("IASB"), International Accounting Standards ("IAS") for all industries.

Deja vu for those Certified Public Accountants (CPAs) in the insurance industry in August, 1991, when the American Institute of Certified Public Accountants ("AICPA") issued an exposure draft of a Proposed Industry Accounting Guide for Insurance Agents and Brokers. But this isn't Groundhog Day, because in 1991, the insurance industry and its IT vendors opposed the rules with such vigor, they were never finalized.

THE NEW PROVISIONS ARE ECONOMY-WIDE AND ATTEMPT TO **ALIGN THE ACCOUNTING FOR REVENUE RECOGNITION ON A GLOBAL BASIS.**

The AICPA has a subcommittee preparing recommendations for the implementation of ASC 606, however, it is still unissued. It is hopeful the enlightenment from the AICPA will bring some sanity to the hand wringing by accountants trying to figure this out with little authoritative guidance. As a result of the changes, insurance agents and brokers that prepare financial statements and those bank-owned or publicly traded entities will need to adjust their methodology of revenue recognition.

The new rules involve judgement on the part of agents and brokers, which is the origin of the additional work that accountants will face. ASC606 is a five-step approach:

1. **Identify the contract with a customer**
2. **Identify the performance obligations in the contract**
3. **Determine the transaction price**
4. **Allocate the total transaction price to each of the performance obligations in the contract**
5. **Recognize revenue as each performance obligation is satisfied**

Until the AICPA Insurance Industry Task Force, one of 16 industries being addressed each by a unique task force, issues its findings, which incidentally, are not to be considered authoritative, we base this summary on general concepts.

First, identifying the contracts.

It should be noted that right off the bat, insurance contracts are to be accounted for under guidance from Accounting Standards Codification (ASC) 944, Financial Services – Insurance. This refers to the contract between the carrier and client, and therefore the carrier's accounting for the revenue. The new standard applies to non-insurance contracts, including insurance brokerage transactions, either commissions or fees for service, TPA (Third Party Administrator) arrangements and other risk management and loss control services.

Second, identifying the performance obligations in the contract.

This is where the fun starts. Is the agency required to provide additional services beyond the placement of the coverage? Wouldn't it be great for the agency's profit to place the coverage and do nothing else for the policy period? Many of our clients would argue that if that was the incumbent agent's value proposition, they would win the business by convincing the prospect that they will provide many touchpoints during the year including service calls, risk management, processing certificates and endorsements, etc. As a result, clients have an expectation of the services they are owed by their agent or broker. If the services are a series of distinct goods and services transferred to the client consecutively, it is treated as a single performance obligation.

Third, estimating the transaction price is easy when it comes to the commission or fee on a policy, but what about the variable compensation components and adjustments?

Contingent income and override compensation increase the transaction price, while policy cancellation reduces the transaction value. One of the key criteria for estimating transaction price is including the consideration to the level that it is probable that a significant revenue reversal will not occur.

Fourth, allocation of the transaction price to the performance obligations.

The easiest benchmark for this step is the transaction price on a relative standalone basis. This may be a challenge for services not performed separately, often considered incidental.

Finally, recognizing the revenue; the agency will recognize revenue when it transfers control of the promised good or service to the customer.

This can be at a point in time, or over time. We believe it is likely that you will be able to make the case that services outlined in step 2 are provided over time and therefore, the revenue is recorded over time.

When comparing the new rules with the current industry standard method of recording direct bill commission and contingent income on a cash basis and agency bill commissions dependent on the billing frequency selected by the customer, a key question remains. Do the new rules, which add complexity and likely cost, materially change the revenue reported? Stay tuned, hopefully the AICPA Task Force will provide us more wisdom on this topic. ■

**The new standard was effective for public entities with fiscal years beginning after December 15, 2016.*

Sources: The New Revenue Recognition Standard – Insurance, Ernst & Young, Technical Line No. 2014-31, August 28, 2014; Revenue from Contracts with Customers – Insurance Intermediary Industry Supplement - Price, Waterhouse, Coopers, 2015; Accounting Standards Codification Topics 606 and 610

BROKER SPOTLIGHT

Producing Results — **Game-Changers at Esser Hayes**

Esser Hayes continues a tradition of organic growth by aligning producers to its mission and re-energizing how the agency hires and develops team members.

Authored by ***Alison Wolf,*** Director – Research

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An outline of what it takes to drive organic growth at an insurance agency was projected on the screen. This illustration was an "aha," staring Howard A. Weiss right in the face. Then and there, he began to rethink how Esser Hayes Insurance Group ("Esser Hayes") was recruiting, training and developing producers at the Naperville, Illinois-based firm. Weiss, who is the President of Esser Hayes, was at the MarshBerry 360 when he realized the business needed to address "a monumental task."

Esser Hayes had a vision — a strong platform, as a family business started by Howard Esser Sr. in 1941. It had loyal clients, a growing book of business and a respected name in the industry. That said, the firm also recognized that its success over the years resulted from perseverance — along with a healthy combination of tradition and innovation. The agency wanted to re-energize the producer experience, from identifying candidates to conducting interviews with prospects and onboarding new salespeople.

"Being at the MarshBerry 360 was the catalyst that made me reconsider how we were approaching producers, particularly aging producers and what the expectations of a producer should be," Weiss says. "Also, we needed to think about what was required on our end to continually drive growth as an organization. We needed support from an outside organization to help us execute that."

Today, not only are there effective systems in place for producers, Esser Hayes is in the process of formalizing a program to give producers ownership in the business. "We think this is important," Weiss says.

"Letting the team know they have an opportunity to have some ownership if they are successful — that's an exciting factor and it makes them want to join us. It's an exciting part of our culture."

Here are five game-changers Esser Hayes has implemented to help drive organic growth, create a vibrant work environment, and provide future opportunities for top performers.

1 NO JERKS ALLOWED

"We have a 'No Jerk' policy," Weiss quips. "I don't care how good you are, if you don't treat people right, this isn't the place for you. We are looking for people who are kind, gracious and humble, and at the end of the day, we are all going to work hard — and we also like to have fun."

So, who is the ideal Esser Hayes producer? Weiss notes the importance of sitting down and really outlining what professional and personality traits are necessary to succeed in this business. "We need people who have endurance to run this race," he says simply. That includes having strong interpersonal skills, the drive to persevere during times of adversity — and thick skin. "They have to know how to take 'no' for an answer, and know how to win without celebrating for a year," Weiss says.

Tenacity is key because when building million-dollar books of business, producers must be persistent and patient. "They need to keep the long-run in mind," Weiss says. "They need the energy to come back every day — to not slow down."

GAME-CHANGER: ***Not every salesperson is a true hunter. "We want people who love to go out there to meet new people — they love being on the phone, dropping in, networking," Weiss says.***

Also, Esser Hayes recognizes that successful insurance producers must be well-rounded. "It's not only being able to establish relationships, but it's the hunting and the grinding — the endurance to stick with it for the long-run." When Esser Hayes hires producers with this mentality and fortitude, producers grow a successful career at the firm and contribute to its success.

2 NAILING THE INTERVIEW

It's natural to explain your business—your company, your culture—during an interview with a potential employee. You want them to know all about what you do and how you do it. But, is that necessary? "We realized during interviews, we were selling Esser Hayes—and we didn't have to do that," says Christine Cione, Communications Director. "They had already been sold on our business, so we had to talk to them about what it means to be a producer, what they had to do, the work it was going to require."

This changed the interview conversation, and the questions Esser Hayes asked candidates applying for producer positions at the firm.

GAME-CHANGER: ***Working with MarshBerry, Esser Hayes identified important interview questions to ask that would reveal candidates' personality traits. The firm now educates candidates about what it takes to be a successful producer so potential salespeople get a realistic picture of what the work entails.***

3 ALIGNING THE PLAYERS

Esser Hayes recruited five producers in 2017 utilizing MarshBerry's Talent Acquisition team. These recruits had zero experience in the insurance industry before joining the firm. They were outsiders — but talented sales professionals with a great potential to drive new business for the agency. When onboarding employees who are new to the insurance space, training and mentorship is critical. "They need people to talk to and to learn from, and the whole agency has to embrace that process," Weiss says. Rather than assigning a mentor for each new hire, Esser Hayes took a "class" approach to this group, training more than one producer at a time. This helped enforce the company's vision, mission and culture.

"It takes time and energy to mentor and nurture new producers," Weiss points out. And, it's not a responsibility that belongs solely to a person who heads up training or human resources, he adds.

GAME-CHANGER: ***The entire team has to be willing to take on a teaching role, to some degree — and recognize that doing so better aligns the business for success. "When everyone is aligned and they know where we are going and have a clear sight, it makes it easier for them to focus — to create the momentum that will help us achieve our goals," Weiss says.***

4 TIMING RECRUITMENT

Is there ever an ideal time to hire producers — or any employee, for that matter? Esser Hayes says it has made a practice of bringing producers in by pairs. "In the future, I foresee us bringing in a group at one time," Weiss says. "When you bring in more than one at a time, they build camaraderie. They're in the same boat, and you can see that team form — they support each other, and there's a little bit of healthy competition, too."

GAME-CHANGER: ***Transitioning from placement to effective producer was the next hurdle. New recruits were slotted into MarshBerry's sales coaching program with six months of training that evolved into more mentorship and guidance throughout the following 12 months. "If you are constantly repeating that first six months when you are giving new hires all sorts of information, it is a real challenge," Weiss points out.***

The company gains efficiencies and helps assure consistency when several new producers are trained at one time, Cione adds. "We want to make sure we aren't duplicating the training every month," she says. Hiring periods tend to be March to October. Weiss says, "This gives new producers an opportunity to see busy periods of time."

5 KEEPING THE VISION FRESH

It's easy to get stale — every business fights a battle against complacency to some extent. Successful insurance firms recognize that to rest on your laurels is futile. It creates too much comfort and gradually deflates drive. At Esser Hayes, transparency and open communication ensure that everyone is on the same page with the company's mission, vision and current projects. "Everyone is aware of what we are doing and why," Weiss says. "This keeps the vision fresh. We are committed to getting back to the purpose of what we are trying to do, which is to protect and insure the wellbeing of the clients we serve."

GAME-CHANGER: ***"So many times, you think you communicated something the right way, or you think that people understand what's going on," Weiss says. But you can't "think" people understand; you've got to communicate clearly and frequently.*** ■

HIGHLIGHTING
EXCEPTIONAL AGENCIES

ATLAS INSURANCE AGENCY

AGENCY IN FOCUS

MARSHBERRY

Atlas Insurance Agency ("Atlas") has been serving their clients' needs since 1929. A major part of their success can be credited to their development of a workplace culture that stresses the island values of ʻohana. In Hawaiian, ʻohana means family and emphasizes that families are bound together through unrelenting support of one another.

ʻOHANA

For almost 90 years, Atlas has committed to developing talent from within the organization. They exude the values of ʻohana by supporting and investing in their own people. Each team member has a "Development Plan" with a specific career path to pave the way for their professional growth and development. Atlas promotes the "One Atlas" motto where together everyone achieves more and can deliver the highest level of service to their clients.

Atlas Insurance created an Office Activities Committee to dedicate focus on workplace events and activities meant to foster employee engagement by bringing "laughs and office bonding opportunities" within the work environment. In addition, a foundation was established in order to give back to their community and support those who are in need.

INTEGRITY

Atlas Insurance was built on the founder's vision of integrity by delivering the best in class services, understanding the client's needs, and developing creative ideas to provide solutions. They utilize their Blue Print process to provide customized consultation, competitive products, and comprehensive services to deliver results with the goal of exceeding their clients' expectations. According to Atlas, over the past ten years, they have been able to double their revenues and profits.

WELCOMING NEW OPPORTUNITIES

Atlas always has an eye on the future. In an effort to close the age gap, they have created an internship program specifically for young and ambitious millennials. The intent of the program is to hire them upon the completion of a successful internship, and streamline the industry learning curve through guidance from coworkers, insurance designations, and weekly training sessions. They have also been voted by their employees as one of Hawaii's Best Places to Work for seven consecutive years, (2011-2017) according to *Best Places to Work Awards by the San Diego Business Journal*!

To learn more about Atlas Insurance, check out their website ***www.atlasinsurance.com*** *and social media channels!*

Interested in being spotlighted in CounterPoint and our social channels? Visit us at: **www.MarshBerry.com/AgencyinFocus**

TAX REFORM **SUMMARY**

Continued from Page 1

The times, they are a changing. Eight of the ten most active buyers during 2017 were private equity backed brokers. PE-backed brokers that lead the pack in deal count have leverage. And, they set the price in the deal market and everyone else follows. With the tax reform bill, if we make the unlikely assumption that interest rates won't rise in the future, we believe highly leveraged PE-backed brokers could take a hit to cash flow of almost 7% up through 2021, due to paying taxes on some of the interest expense (the tax reform act incorporated a cap on interest deductibility of 30% of EBITDA until 2021). In 2022, the cap on interest deductibility moves to 30% of EBIT (Earnings Before Interest & Taxes). Due to heavy amortization expense, EBIT in PE-backed brokers is low. As a result, only a restricted amount of interest will be able to be written off. Under the assumption that interest rates will not increase, we believe the switch to EBIT will hit the cash flow at highly leveraged PE-backed brokers by over 13% (compared to the pre-tax reform era) in 2022 and beyond.

The Federal Reserve (Fed) increased rates three times during 2017. The Fed has sent many signals that it intends to continue to raise rates to keep the economy from over-heating after the tax reform act catapulted corporate earnings like gasoline on a fire. Most people would argue that the probability of a continued steady increase in interest rates is a safe bet. By our internal calculations, and according to changes to the corporate tax rate schedule, the cash flow hit to the highly leveraged PE brokers starting in 2022 will be a knee shaking 34%, if interest rates increase only slightly (from 7.0% to 8.5%, for example). As a result, highly leveraged PE-backed brokers are going to pay a lot more tax and take a whack to cash flow.

To keep cash flow neutral, we believe that PE-backed brokers with high levels of debt will be forced to de-lever. For example, if you assume no increase in interest rates, a firm with debt at 7 times EBITDA will need to de-lever to 6 times EBITDA to break-even on cash flow. With a small increase in interest rates (from 7.0% to 8.5%, for example), the break-even in cash flow occurs when debt is reduced by two turns of EBITDA to 5 times. De-levering means more equity and less debt on the balance sheet. The result is a hit to return on invested equity. That is unless, of course, valuations come down. Ladies and gentlemen, it is doubtful that the private equity firms that have invested in PE-backed brokers will accept a lower return. Based on the discussions we have had with active and leveraged PE-backed brokers, they know the hit to cash flow is here, they know it is going to get worse and as a result, they are making plans to de-lever. And it will get worse every year until 2022. Pricing will be the release valve. That is the single whammy.

As if that is not enough, investment return modeling is highly sensitive to the terminal value that is assumed by a buyer. Given the threat to cash flow and the resulting need to use less leverage, exit values are going to get smacked. When a fund decides to sell a position in a broker, the typical buyer is another private equity sponsor that uses leverage to close the deal and to drive future returns. We believe it is inevitable that less leverage will be used in the next round of sponsor to sponsor deals and as a result, PE-backed broker valuations will suffer. If the active buyers are worth less, so will the firms they target to acquire. A decline in value will flow downhill. That, my friends, is what we call the double whammy. Valuation headwinds resulting from tax reform are virtually coming from every angle. The decline may be tempered by those few that experience better cash flow, but they are outnumbered. At the end of the day, in our opinion, once the pricing of the most active acquirers turns, the herd will follow.

4 A TRIPLE WHAMMY?

The debt on the balance sheets of the PE-backed brokers is in what is called a capitalization stack. The foundation of the stack is low-risk, low-yield and the top of the stack is high-risk, high-yield. The low-risk to high-risk chain above common equity runs from bonds through senior debt, subordinated debt, mezzanine debt, convertible debt to preferred equity, which is also the pecking order in the event of liquidation. The more turns on EBITDA in debt a company accumulates, the greater the proportion of the stack is concentrated in high-risk and high-yield debt.

The highest levered PE-backed brokers with concentrations of high-risk debt have Single B rated and even Caaa2/CCC+ rated paper on their balance sheets. In the rating world, that layer of debt is considered junk bond status. The word "junk" by default, is defined as "highly speculative with substantial risks" and dangerously close to "default imminent with little prospect for recovery". While true, it is not uncommon and not even the point. The highly leveraged PE-backed brokers have been highly successful with no visible failures. The point is that this category of debt is the first to freeze and last to thaw when the financial world experiences even a slight tremor.

According to PitchBook, 2017 was a year where the median amount of debt to EBITDA in middle market PE was the highest in over ten years at 5.6 times EBITDA. Given recurring revenue within the insurance business, the Federal Reserve has allowed PE-backed brokers to crank debt up to 7 times EBITDA. The impact of a threat to the financial world would likely be a shutdown of the junk debt market and an increase in the cost of any debt. And for debt with a risk profile above senior, capacity would be restricted and painfully expensive, if you could even get it. If rates rise, PE-backed brokers de-lever and on top of that, the credit markets get shaky, that would not be a triple whammy. Oh no, no, no... That would be a good old fashioned valuation bully beat down.

The average valuation as a multiple of revenue during 2017 including the potential earn out is just shy of twice what it was ten years ago (3.56 versus 1.80). We all knew the day would come when things that are too good to be true would stop being true. That day may be on our doorstep. While we do believe competition from less leveraged buyers will have an offset, they are outnumbered by those with leverage. In addition, 2017 was a record breaking year of fundraising in the private equity world and the profile of the insurance distribution system remains very attractive to investors. The only saving grace to value could be that the glut of capital combined with the quality of the industry could outweigh the desire to preserve returns.

The good news is that irrespective of value, we believe there will continue to be a healthy demand for insurance agencies given high recurring revenue, low capital expenditure requirements, strong EBITDA margins and fairly high barriers to entry. In my opinion, even with a correction, the insurance distribution system will remain the greatest industry in the history of mankind.

Chairman & Chief Executive Officer, MarshBerry

Learn more about how tax reform might impact your business by downloading our whitepaper at www.MarshBerry.com/TaxReform

Source: Based on the Tax Cuts and Jobs Act ["HR1"], other publicly available information, professional experience and various discussions with PE-backed brokers and other buyers.

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Q&A with John Wepler

With the emergence of InsurTech startups, what type of technological investments are brokers making to improve policy services, claims services, data analytics, and the overall customer experience?

Technology and more specifically, data mining and analytics are revolutionizing the way brokers are allocating their reinvestment dollars. Combine this with the emergence of InsurTech start-ups that are designed around a culture of innovation, creativity, and user-centric technology aimed to optimize the insurance buying process and you have a recipe for a technological arms race. Aon PLC ("Aon") recently announced plans to invest in data center optimization, application management, cyber risk advisory, and data & analytics platforms that will allow Aon to help insurers and clients think more holistically about their insurance and risk management needs, all while providing a superior customer experience.

Arthur J. Gallagher & Co.'s ("AJG") technology platform, LUMINOS, was recently recognized as a Third Party Administrator leader in a 2018 Risk Management Information Systems report, highlighting their continuous reinvestment in technology platforms. AJG does not believe InsurTech start-ups will prove to be a drastic disruptor long-term, they believe the trusted adviser relationship will hold firm. However, they are cognizant of the need to continually adapt. Brown & Brown, Inc. ("BRO") is also focused on technology reinvestment, both internally and externally, citing that their overall budget spend in this area equates to approximately 70 basis points, which is higher than recent history.

Technology and data analytics are changing the insurance landscape. The companies that can aggregate, mine, analyze, and leverage their data to win more new business and create better, innovative products and experiences for customers will sustain a competitive advantage against those who chose to ignore the impact of technology and remain complacent.

Given the near-record levels of weather-related disasters that culminated in 2017, what is the perceived outlook on the rate environment heading into 2018?

There remains a wide range of estimates around losses from catastrophic (CAT) events in 2017, however it is abundantly clear that 2017 was a devastating year for many communities affected by these events. To put that in perspective, 2017 was one of only a handful of years in history that global insured CAT losses exceeded $100 billion, leading many to speculate on the overall impact these losses will have on market pricing. BRO noted that many risk bearers attempted to increase rates in the range of 10% to 20% on coastal properties, however the abundance of capital in the marketplace and influx of new competition put downward pressure on rates, subduing the actual rate increases to a range of 0% to 5%, on average.

Marsh & McLennan Companies, Inc. ("MMC") announced their acquisition of ICAT in 2017, a Managing General Agent that will expand MMC's underwriting and claim capabilities in the small to middle-market space to become more competitive in the CAT space. Many brokers experienced a reduction in contingent commissions and guaranteed supplemental commissions because of CAT activity and many are forecasting similar reductions heading into 2018. Overall, the anticipated rate increase expectations have waned and have turned to an anticipation of further softening, given an abundance of capital, additional net income stemming from a cut in the corporate tax rate and increased competition. But one thing is certain, weather related disasters combined with demographic, economic, and the rapid pace of technology change are aggregating to create challenging new realities for businesses and clients heading into 2018.

How are brokers preparing for the anticipated impacts of tax reform legislation?

Tax reform is still somewhat of a "black box" regarding the ultimate impact it will have on businesses. However, it is apparent that legislation will continue to evolve throughout 2018 , especially as respect to the definition of Specified Service Trade Business. It is worth noting that Q4 2017 was one of the strongest organic growth quarters in recent history for the five brokers we track on our Broker Tear Sheet, averaging 6.4% organic growth for the quarter (as compared to 3.2% organic growth year-to-date through September 2017). Higher than average organic growth coupled with increased tax benefits is a great combination.

BRO is anticipating additional tax benefits of $40 million to $50 million and increased cash flow of approximately 10% for 2018. They plan to utilize these funds for reinvestment in human capital, data analytics innovations, and acquisitions. Private equity-funded brokers with tremendous debt, by contract, will suffer a hit to cash flow as a result of the threshold on the deductibility interest. Several brokers see the overall legislation as a positive long-term, however these brokers expect to report one-time noncash charges to align certain deferred tax assets and liabilities with the tax reform. AJG is anticipating considerably more cash flow due to tax reform and aggregate tax credits nearing $1 billion by the year-end 2021.

For some, the multi-faceted tax reform legislation may ultimately boost cash flow and allow more capital to be deployed for growth, reinvestment and acquisition. However, for those highly leveraged private equity funded firms that are leading in deal count and driving valuation, cash flow will be whacked by the interest deductibility limits that have been imposed for 2018 through 2021 and the switch to EBIT in 2022. We believe the hit to return on invested capital and terminal values, put these firms in a precarious position. Either accept much lower returns or drop valuations. In our opinion, valuations will suffer.

Sources: Data for Arthur J. Gallagher & Co., Brown & Brown, Inc., Willis Towers Watson PLC and Marsh & McLennan Companies was obtained through the 4Q17 public investor calls for each organization as well as other publicly available sources; MarshBerry opinion and experience.

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The Broker Tear Sheet is a proprietary quarterly report from MarshBerry that highlights critical ratios and statistics on the performance and market value of the five publicly traded insurance brokers.

The information is compiled from a number of credible sources including: S&P Global Market Intelligence, Yahoo! Finance, Morningstar and Reuters reports along with company websites. The one and five year Financial Performance Indicators are updated after each broker's year end filing (Q4), while the remaining metrics are updated on a quarterly basis.

4Q17 Snapshot (as of 12.31.17)

BROKER	AON	AJG	BRO	MMC	WLTW
Total Revenue LTM (in $ mil)	10,025	4,524	1,881	14,048	8,141
Number of Employees (FTEs)[1]	69,000	26,783	8,297	65,000	43,000
Number of Offices[1]	500	650	241	600	400
Revenue per Employee ($)	145,290	168,902	226,745	216,123	189,326
Revenue per Office ($)	$20,050,000	$6,959,538	$7,806,224	$23,413,333	$20,352,500
ENTERPRISE VALUE[2]					
Common Stock Price ($)	134.00	63.28	51.46	81.39	150.69
Number of Shares Outstanding (in 000s)	254,500	181,039	138,105	509,000	132,122
Market Capitalization (in $ mil)	34,103	11,456	7,107	41,428	19,909
Plus: Total Debt (in $ mil)	5,966	3,133	976	5,487	4,535
Plus: Preferred Stock & Minority Interest in Subsidiaries (in $ mil)	65	60	0	0	151
Less: Cash & Short Term Investments (in $ mil)	756	681	573	1,205	1,030
Equals: Enterprise Value (in $ mil)	$39,378	$13,968	$7,510	$45,710	$23,565
BOOK OF BUSINESS VALUE					
Market Capitalization (in $ mil)	34,103	11,456	7,107	41,428	19,909
Less: Tangible Net Worth (in $ mil)	-5,443	-1,678	-774	-2,921	-4,152
Equals: Book of Business Value (in $ mil)	$39,546	$13,134	$7,881	$44,349	$24,061
ORGANIC GROWTH					
Organic Growth[3]	6.0%	6.8%	9.3%	4.0%	6.0%
Total Growth[4]	-12.8%	11.7%	9.4%	9.9%	8.8%

__AON__ = Aon Risk; __AJG__ = Arthur J. Gallagher; __BRO__ = Brown & Brown; __MMC__ = Marsh McClennan Companies; __WLTW__ = Willis Towers Watson

[1] Number of employees and number of offices are estimates based on data provided in annual reports, S&P Global Market Intelligence and on corporate websites by each company.

[2] Numbers may not add up due to rounding.

[3] Both Organic Growth and Total Growth represent the most recent quarter (MRQ) in comparison to the same period for the prior year for all reported segments. As such, the difference is comprised of growth by acquisition and disposition of applicable business units for the MRQ. It could include items such as contingent revenue, acquisition revenue and disposed revenue from those that would exclude it from their organic growth calculation. Organic Growth calculations vary by broker (see reverse side).

[4] Total growth for Willis Towers Watson PLC includes merger effective January 4, 2016

4Q17 Financial Performance Indicators (as of 12.31.17)

GROWTH

Total Revenue LTM (in $ mil)	
MMC	14,048
AON	10,025
WLTW*	8,141
AJG	4,524
BRO	1,881
Median	8,141

Organic Growth Quarter End 4Q17[5]	
BRO	9.3%
AJG	6.8%
WLTW*	6.0%
AON	6.0%
MMC	4.0%
Median	6.0%

Organic Growth Year to Date as of 12.31.17[5]	
AJG	4.5%
BRO	4.4%
WLTW*	4.3%
AON	4.0%
MMC	3.5%
Median	4.3%

Revenue YOY Growth as of 12.31.17	
AJG	8.1%
BRO	6.5%
AON	6.3%
MMC	6.3%
WLTW*	3.6%
Median	6.3%

Revenue Growth 5 Year CAGR	
WLTW*	18.4%
AJG	13.4%
BRO	9.4%
MMC	3.2%
AON	-2.8%
Median	9.4%

PROFIT

EBITDA[6] LTM (in $ mil)	
MMC	3,361
AON	1,858
WLTW*	1,510
AJG	888
BRO	596
Median	1,510

EBITDA Margin LTM	
BRO	31.7%
MMC	23.9%
AJG	19.6%
WLTW*	18.5%
AON	18.5%
Median	19.6%

EBITDA Margin 5 Year Average	
BRO	32.1%
MMC	22.1%
AON	20.9%
AJG	18.8%
WLTW*	18.4%
Median	20.9%

EBITDA YOY Growth as of 12.31.17	
WLTW*	16.8%
AJG	8.6%
MMC	8.2%
BRO	4.5%
AON	-7.2%
Median	8.2%

EBITDA Growth 5 Year CAGR	
AJG	15.7%
MMC	8.6%
BRO	8.3%
AON	-3.9%
WLTW*	n/a
Median	8.5%

BALANCE SHEET

Tangible Net Worth (in $ mil)	
BRO	(774)
AJG	(1,678)
MMC	(2,921)
WLTW*	(4,152)
AON	(5,443)
Median	(2,921)

Tangible Net Worth as % of Revenue	
MMC	-20.8%
AJG	-37.1%
BRO	-41.2%
WLTW*	-51.0%
AON	-54.3%
Median	-41.2%

Debt to LTM EBITDA *Lower performance is usually best*	
MMC	1.6
BRO	1.6
WLTW*	3.0
AON	3.2
AJG	3.5
Median	3.0

Working Capital/ LTM Revenue	
WLTW*	13.6%
BRO	13.5%
MMC	9.3%
AON	9.2%
AJG	5.7%
Median	9.3%

Days of Working Capital	
BRO	64.9
WLTW*	52.8
MMC	41.6
AON	36.0
AJG	22.7
Median	41.6

VALUE

Market Cap (in $ mil)	
MMC	41,428
AON	34,103
WLTW*	19,909
AJG	11,456
BRO	7,107
Median	19,909

Price-Earnings Multiple	
WLTW*	45.8
BRO	25.5
AJG	24.6
MMC	23.0
AON	22.1
Median	24.6

Book of Biz Value as Multiple of LTM Revenue	
BRO	4.2
AON	3.9
MMC	3.2
WLTW*	3.0
AJG	2.9
Median	3.2

Book of Biz Value as Multiple of LTM EBITDA	
AON	21.3
WLTW*	15.9
AJG	14.8
BRO	13.2
MMC	13.2
Median	14.8

Enterprise Value as Multiple of LTM EBITDA	
AON	21.2
AJG	15.7
WLTW*	15.6
MMC	13.6
BRO	12.6
Median	15.6

RETURN

Dividend Yield Quarter End 4Q17	
AJG	2.5%
MMC	1.8%
WLTW*	1.3%
BRO	1.1%
AON	0.9%
Median	1.3%

Earnings Yield Quarter End 4Q17	
AJG	1.1%
BRO	1.0%
MMC	0.9%
AON	0.6%
WLTW*	-0.3%
Median	0.9%

Price Per Share Growth LTM	
AON	29.9%
BRO	27.8%
MMC	24.6%
AJG	21.0%
WLTW*	16.2%
Median	24.6%

Price Per Share 5 Year CAGR	
AON	19.0%
MMC	16.4%
BRO	14.7%
AJG	9.2%
WLTW*	3.5%
Median	14.7%

Total Return LTM	
WLTW*	25.0%
AJG	25.0%
MMC	22.7%
AON	21.5%
BRO	16.1%
Median	22.7%

***AON** = Aon Risk; **AJG** = Arthur J. Gallagher; **BRO** = Brown & Brown; **MMC** = Marsh McClennan Companies; **WLTW** = Willis Towers Watson*

* *WLTW includes financial information from the merger between Willis Towers Watson PLC and Towers Watson that was effective January 4, 2016.*

[5] *As reported in the MD&A published by each company; and calculated and reported slightly differently by each. AON: Includes all revenue except business unit transfers, unusual items and reimbursable expenses. AJG: Includes base organic commission & fee revenue and excludes supplemental and contingent commission revenue, impact of prior year large account wins, run-off related to the New South Wales Workers' Compensation Scheme, South Australia ramp up fees and New Zealand claims administration. BRO: Includes total commissions excludes profit sharing and guaranteed supplemental commissions. MMC: Includes all segments of revenue, using consistent currency translation (excluding divestitures, transfers among business units, acquisitions, and deconsolidation of Marsh India). WLTW: Includes total commissions & fees (excludes goodwill impairment charges, debt extinguishment, investment income, and other income). All broker organic growth calculations exclude the impact of foreign currency translation, divestitures, transfers, disposed operations, and the first twelve months of acquisition commission & fee revenue.*

[6] *EBITDA is not adjusted to include the add-back of non-recurring expenses written off throughout the year.*

TERMINOLOGY KEY: **LTM:** LAST 12 MONTHS (12.31.17); **CAGR:** COMPOUND ANNUAL GROWTH RATE (12.31.17); **EBITDA:** EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION; **NM:** NON-MEASURABLE; **YOY:** YEAR OVER YEAR

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Leadership Strategies to Maximize Growth

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Insurance agency owners, CEOs, Sales Managers, and other key leaders that want to build a high-growth organization.

Session Date & Times

April 23-24, 2018

Topics

- Characteristics of a Great Sales Manager
- Sales & Service Compensation & Incentives
- Producer Accountability
- Goal Setting
- Forecasting
- Tracking Sales Activity
- Pipeline Management
- Producer Recruiting & Hiring
- Coaching Techniques & Best Practices

Location

Radisson Blu Aqua Hotel
221 North Columbus Drive, Chicago, Illinois 60601

Deliverables

All attendees will receive a Sales Management Playbook to help them create a concrete plan of attack to take their agency to the next level.

Cost/Registration

Registration Fee: $1,295
Special Network Member Pricing: *$995*
Deadline: April 14, 2018

Questions

Contact Bethany Snyder
Bethany.Snyder@MarshBerry.com or **440.637.8121**

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MAY 2018

05.03 • MarshBerry 360, New York, NY

05.08 • MarshBerry 360, Chicago, IL

05.10 • MarshBerry 360, Las Vegas, NV

JUNE 2018

06.26 • MarshBerry 360, London, England

SEPTEMBER 2018

09.10–12 • BANK/TASC, Atlanta, GA

OCTOBER 2018

10.16–18 • APPEX, Las Vegas, NV

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