

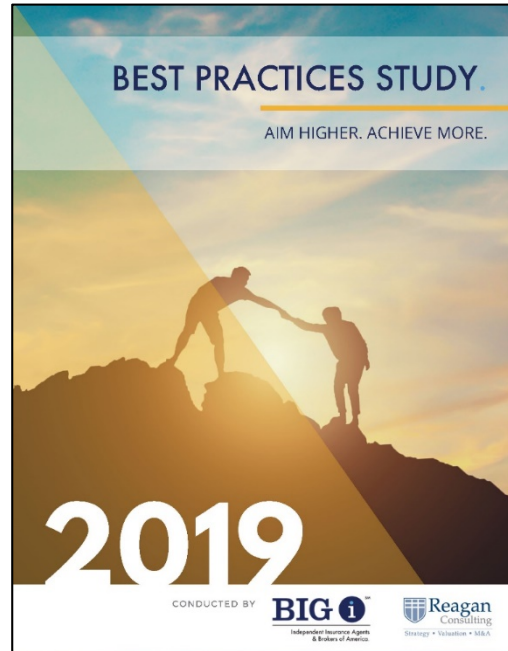
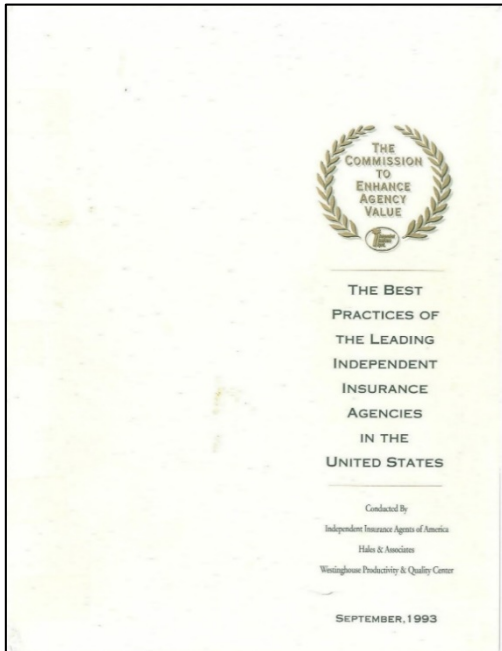


# Trusted Choice Company Partner Meeting 2019 *Best Practices Study* Overview & State of the Industry

Harrison Brooks / Reagan Consulting

November 13, 2019

# The *Best Practices Study*



# Has it worked?

## BEST PRACTICES COMPARISONS, 1993-2019 (Agencies between \$2.5-\$5.0M in Revenue)

Metric	1993	2019	% Improvement
Pro Forma Profit	12%	27%	↑ 125%
Revenue per Employee	\$80,793	\$179,303	↑ 122%
Typical <b>Internal</b> Agency Valuation ( <i>multiple of revenue</i> )	1.0x	1.6x	↑ 60%
Typical <b>External</b> Agency Valuation ( <i>multiple of revenue</i> )	1.4x	2.5x	↑ 79%

Source: 2019 Best Practices Study

# The 2019 Study: Foundations

Growth	Financial	Operational	Compensation	Perpetuation
<ul style="list-style-type: none"><li>• Organic Growth</li><li>• Sales Velocity</li><li>• New Business per Producer</li><li>• Acquired Growth</li></ul>	<ul style="list-style-type: none"><li>• Pro Forma EBITDA</li><li>• Pro Forma Operating Profit</li><li>• Contingent / Bonus / Override Income</li><li>• Debt &amp; Leverage</li><li>• Tangible Net Worth</li><li>• Current Ratio</li><li>• Rule of 20</li></ul>	<ul style="list-style-type: none"><li>• Revenue per Employee</li><li>• Renewal Business</li><li>• Book Served per Producer</li><li>• P&amp;C Revenue per Support Staff Employee</li><li>• L/H/F Revenue per Support Staff Employee</li></ul>	<ul style="list-style-type: none"><li>• P&amp;C Producer Compensation</li><li>• L/H/F Producer Compensation</li><li>• P&amp;C Support Staff Compensation</li><li>• L/H/F Support Staff Compensation</li><li>• NUPP</li><li>• Effective NUPP</li></ul>	<ul style="list-style-type: none"><li>• Weighted Average Shareholder Age ("WASA")</li><li>• Weighted Average Producer Age ("WAPA")</li></ul>

Source: 2019 Best Practices Study

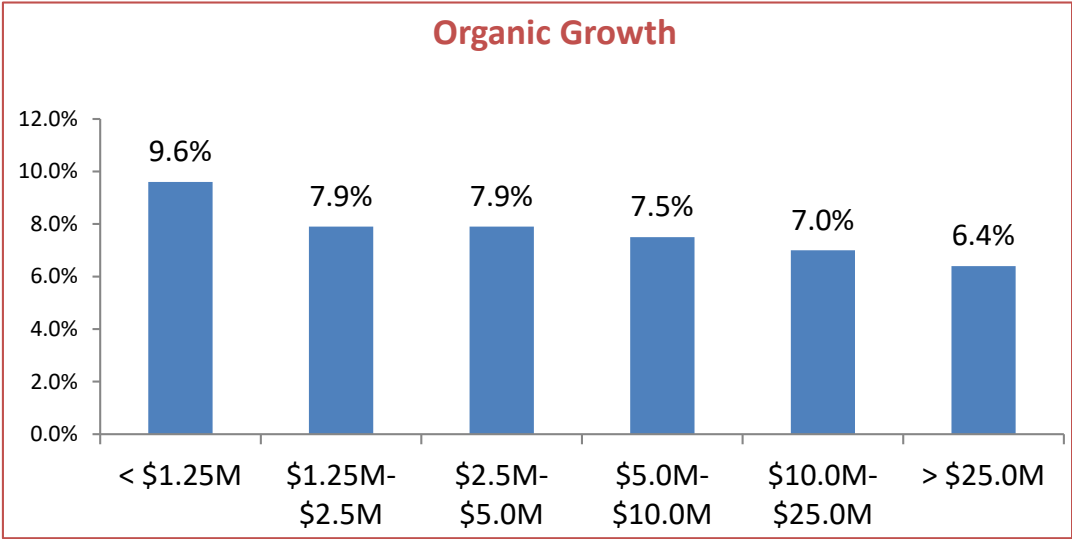
# Agenda

- Key *Best Practices* Benchmarks
- Current Industry Trends
- The Next Decade: Winners and Losers

# Agenda

- **Key *Best Practices* Benchmarks**
- Current Industry Trends
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# Growth



Source: 2019 Best Practices Study

# Sales Velocity

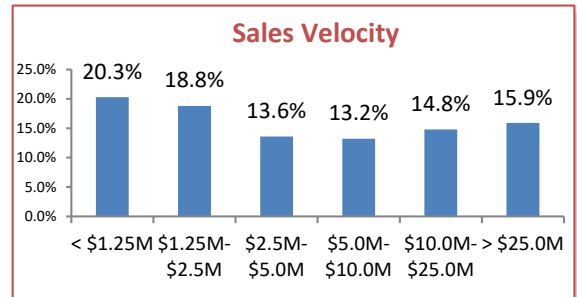
Definition:

**Sales Velocity =**

Current period written new business divided by  
prior period recorded commissions and fees

Example:

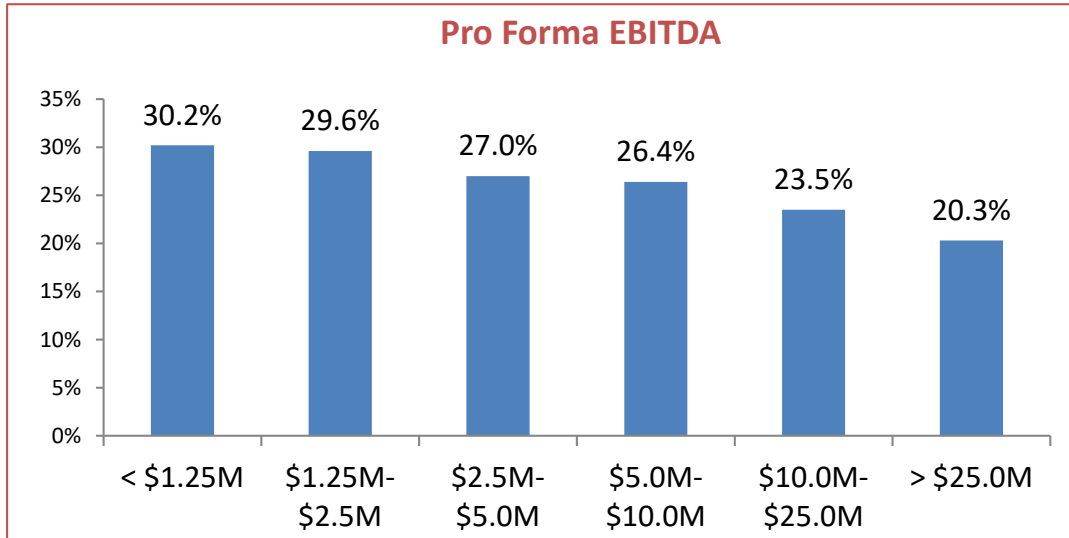
2018 Written New Business	\$250,000
2017 Commissions & Fees	\$2,000,000
<b>SALES VELOCITY</b>	<b>12.5%</b>



Source: 2019 Best Practices Study



# Profitability

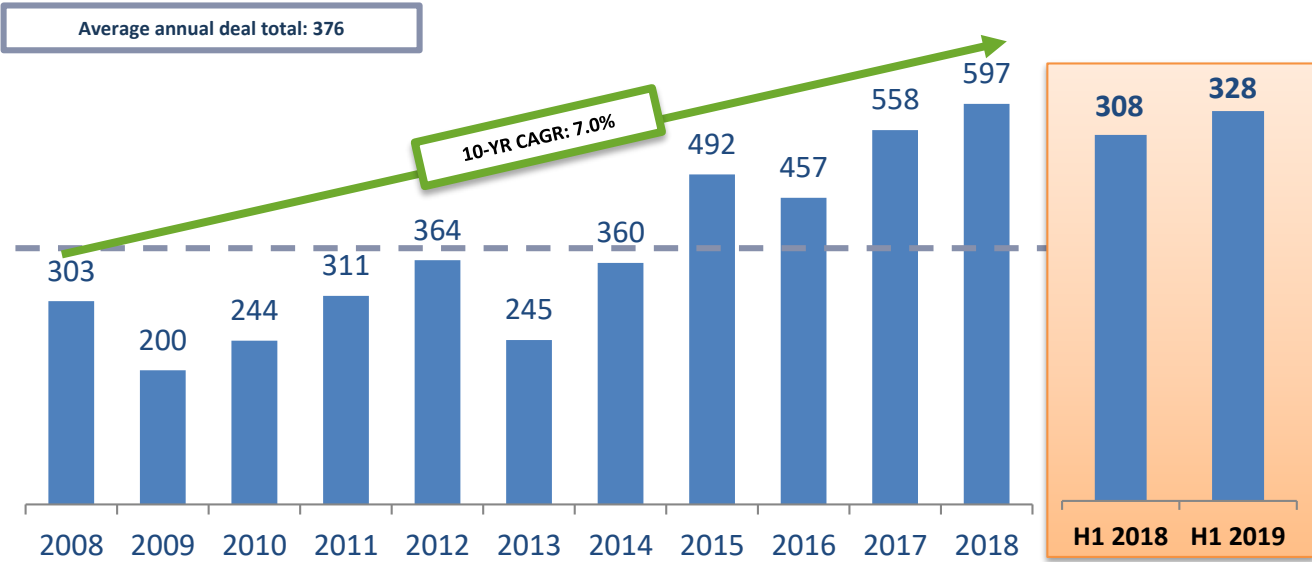


Source: 2019 Best Practices Study

# Agenda

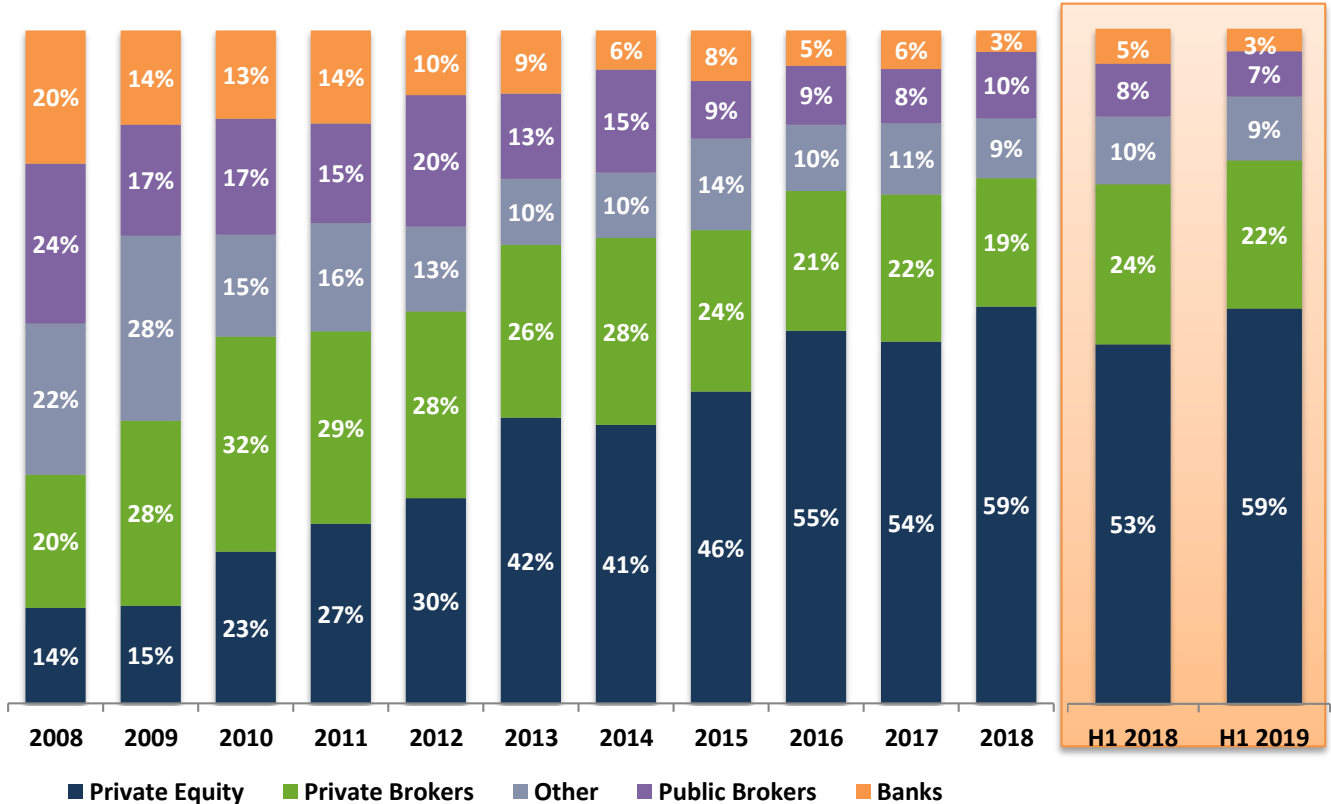
- Key *Best Practices* Benchmarks
- **Current Industry Trends**
- The Next Decade: Winners and Losers

# Recent Deal Activity by the Numbers



Source: SNL Financial as of June 30, 2019 (based on Announcement Date). Includes whole company, franchise and asset sales.

# Who is Buying?



Source: SNL Financial as of June 30, 2019 (based on Announcement Date). Includes whole company, franchise and asset sales.

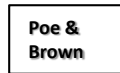
# M&A Deal Valuations at All-Time Highs



*Good quality agents and brokers, \$3-\$10 million in revenue*

# Regional & National Acquirers

*1994 - 1995*



# Regional & National Acquirers



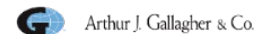
Today



BroadStreet  
— Partners —

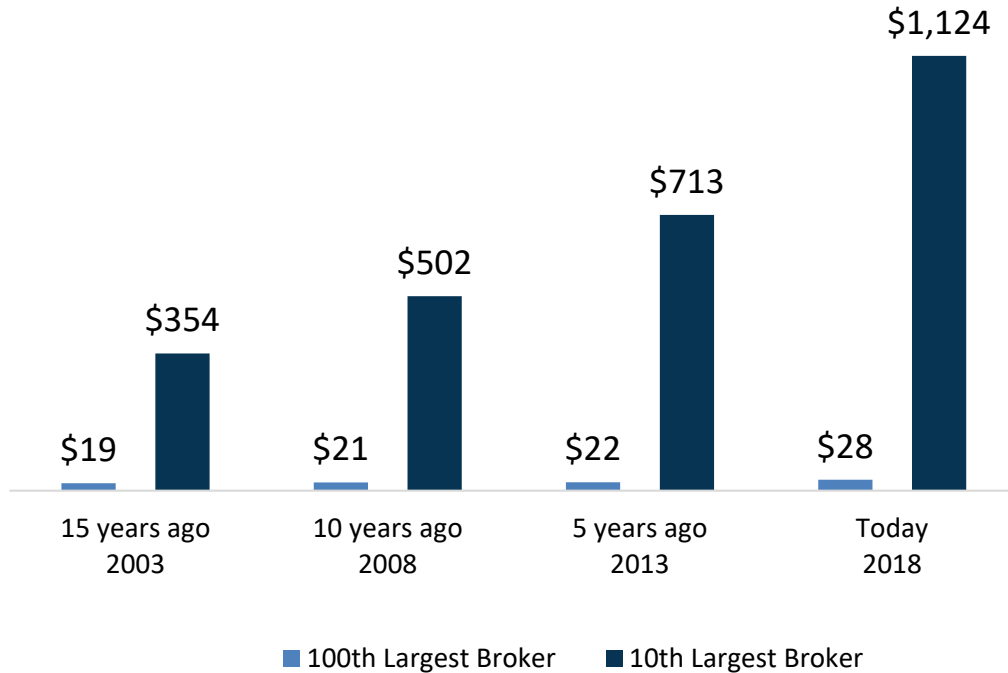


INSURICA INSURANCE MANAGEMENT NETWORK



# Regional & National Acquirers

Ranked by Brokerage Revenues generated by U.S. Clients (\$ in MM)





# Agenda

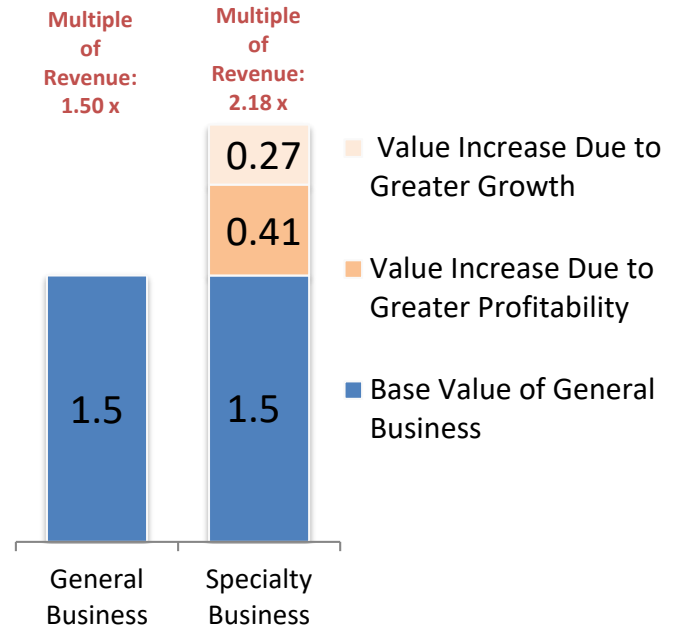
- Key *Best Practices* Benchmarks
- Current Industry Trends
- **The Next Decade: Winners and Losers**

# The Next Decade: Winners and Losers

	Losers	Winners
<b>Strategic Focus</b>	<ul style="list-style-type: none"><li>• Lifestyle continuation – “if it ain’t broke, don’t fix it”</li></ul>	<ul style="list-style-type: none"><li>• Growth investment mentality</li></ul>
<b>Specialization</b>	<ul style="list-style-type: none"><li>• Generalists</li></ul>	<ul style="list-style-type: none"><li>• Highly specialized / Practice Group evolution</li></ul>
<b>Resources</b>		
<b>Technology</b>		
<b>Producer Recruitment &amp; Development</b>		

# The Valuation Impact of Specialization

	General Business	Specialty Business
Sustained Revenue Growth	5.0%	10.0%
Sustained EBITDA Margin	20.0%	25.0%
Valuation (EBITDA Multiple)	7.49 x	8.84 x
Valuation (Revenue Multiple)	1.50 x	2.18 x



Source: National Brokers and Reagan Consulting

# The Next Decade: Winners and Losers

	Losers	Winners
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<b>Specialization</b>	<ul style="list-style-type: none"><li>• Generalists</li></ul>	<ul style="list-style-type: none"><li>• Highly specialized / Practice Group evolution</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Struggling to access, counting on relational account stickiness</li></ul>	<ul style="list-style-type: none"><li>• Investing heavily</li></ul>
<b>Technology</b>	<ul style="list-style-type: none"><li>• Resistant to change and reactive</li></ul>	<ul style="list-style-type: none"><li>• Investment &amp; innovation</li></ul>
<b>Producer Recruitment &amp; Development</b>	<ul style="list-style-type: none"><li>• Massively underinvesting</li></ul>	

## Percentage of Brokers Not Hiring Enough Producers

55% - 60%

Source: Reagan Consulting - *Producer Recruitment & Development Study* (2014)

# The Next Decade: Winners and Losers

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<b>Producer Recruitment &amp; Development</b>	<ul style="list-style-type: none"><li>• Massively underinvesting</li></ul>	<ul style="list-style-type: none"><li>• Investing in both internal and external strategies</li></ul>

**Key differentiator: a growth investment mentality**

# The Independent Insurance Agency Universe

Agency Revenue	Number	Percentage
Over \$28M	100	0.3%
\$10-\$28M	630	1.7%
\$2.5-\$10M	2,884	7.9%
<b>\$1.25-\$2.5M</b>	<b>2,847</b>	<b>7.8%</b>
<b>\$500K-\$1.25M</b>	<b>8,213</b>	<b>22.5%</b>
<b>\$150-\$500K</b>	<b>9,235</b>	<b>25.3%</b>
<b>&lt;\$150K</b>	<b>12,593</b>	<b>34.5%</b>
<b>TOTAL</b>	<b>36,500</b>	<b>100.0%</b>

<b>Growth Investment Challenged</b>	<b>34,329</b>	<b>94.1%</b>
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Source: 2018 IIABA Agency Universe Study, Business Insurance Magazine

## Harrison Brooks / Reagan Consulting



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Harrison Brooks joined Reagan Consulting in 2015 and is a Partner of the firm. Harrison primarily works with clients on mergers & acquisitions, agency valuations and strategic consulting projects.

Prior to joining Reagan, Harrison spent two years at the private equity firm, Carousel Capital, acquiring business and consumer services companies. He was responsible for leading valuation exercises and executing due diligence processes. He also worked closely with management teams on strategic planning and value creation initiatives. Harrison began his career in investment banking with Edgeview Partners (now Piper Jaffray). During his tenure in mergers and acquisitions, he completed numerous buy and sell side transactions.

Harrison is a Certified Valuation Analyst (CVA) and he graduated from the University of North Carolina at Chapel Hill with a Business Administration degree from the Kenan-Flagler Business School. He currently maintains the Series 63 and 79 FINRA Registrations through Reagan Securities, Inc., the affiliated FINRA-registered Broker/Dealer of Reagan Consulting, Inc.