



Valuing a Benefits Agency in Today's Marketplace

BRIAN DEITZ

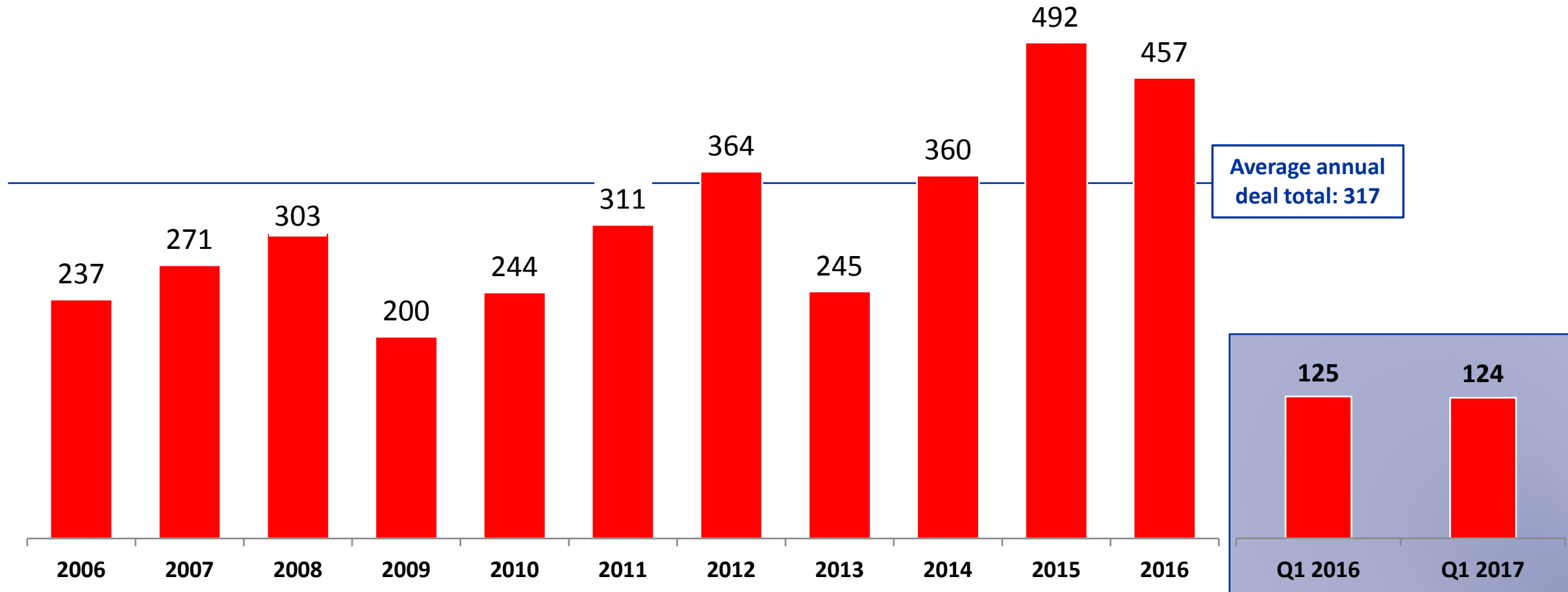
JUNE 2017

Valuing a Benefits Firm Today

- **What is driving the third-party market?**
- Third-party valuations
- Internal valuations
- Staying private and thriving

Record-Setting M&A Activity

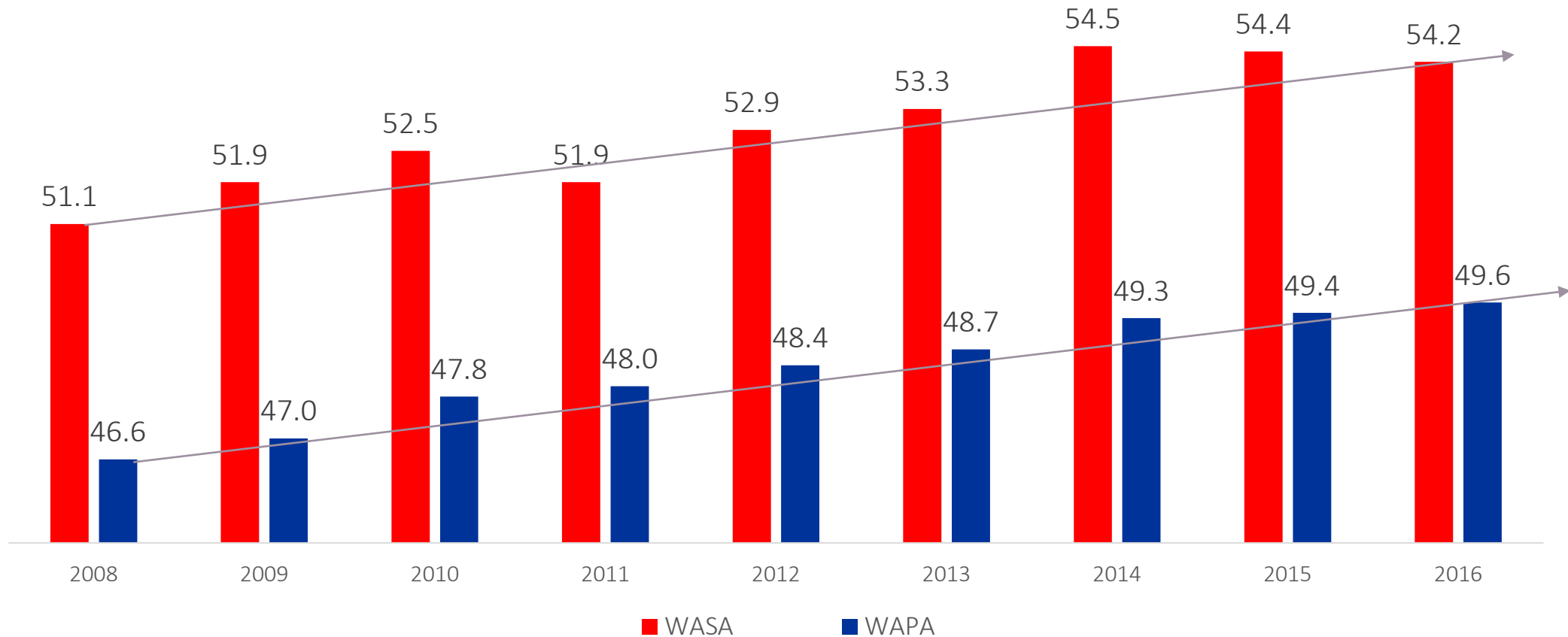
Announced Insurance Agent & Broker Transactions



Source: SNL Financial as of April 2017 (based on Announcement Date). Includes whole company, franchise and asset sales.

M&A Driver: Our Industry is Aging

WASA and WAPA over the last nine years



Source: Reagan Value Index

M&A Driver: Fragmented Industry

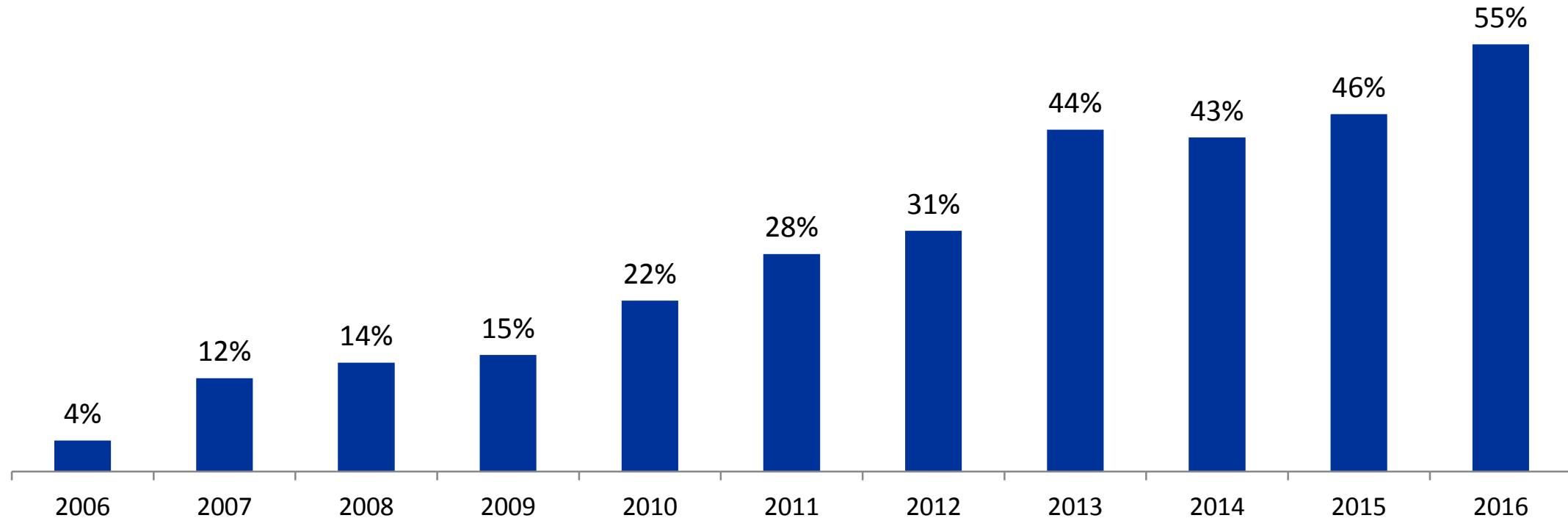
The Number of Insurance Agencies in the US

	2011	2016	Change
Over \$500M	10	13	3
\$100-500M	8	29	21
\$10-100M	282	283	1
\$5-10M	600	575	(25)
\$1.25-5M	3,300	3,300	-
Below \$1.25M	33,300	33,000	(300)
Grand Total Agency Universe	37,500	37,200	(300)

Sources: IIABA FutureOne Study, Business Insurance, Reagan research. Note EB-only agencies not included.

M&A Driver: The Private Equity Takeover

Private Equity's Rise to Dominance: Share of Deal Activity



Source: SNL Financial

Most Major Acquirers are Private Equity Firms

Buyer	2015	2016	Q1 2017	Total Deals
Acrisure (PE)	42	41	12	95
Hub (PE)	35	38	8	81
Broad Street (PE)	26	28	11	65
AssuredPartners (PE)	30	26	4	60
Arthur J. Gallagher	19	23	9	51
Confie Seguros (PE)	19	16	1	36
NFP (PE)	16	9	3	28
Hilb Group (PE)	8	15	4	27
Alera Group (PE)	0	22	0	22
USI (PE)	6	10	4	20
Risk Strategies (PE)	5	10	2	17
Brown & Brown	12	5	0	17
Marsh McLennan	7	5	3	15
Alliant (PE)	8	6	1	15

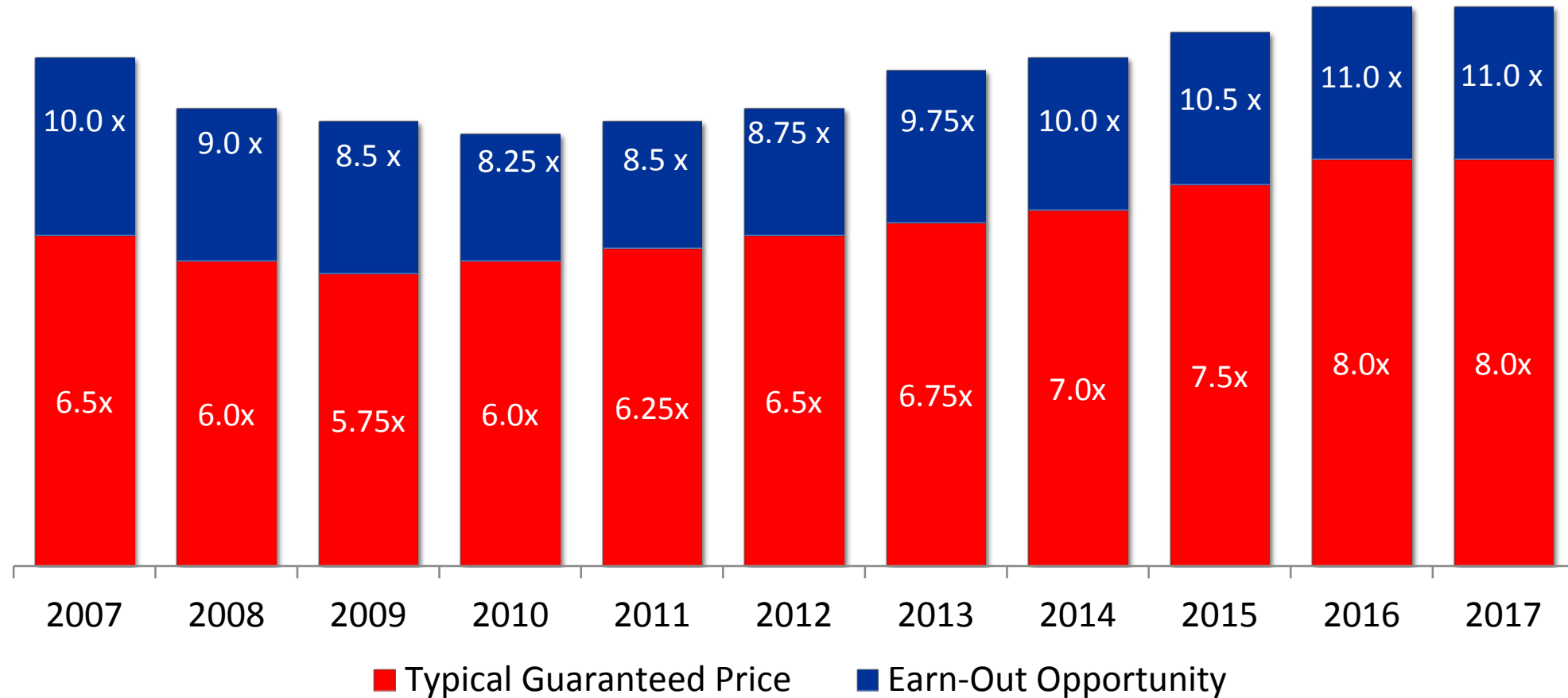
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M&A Valuations Holding at All-Time Highs

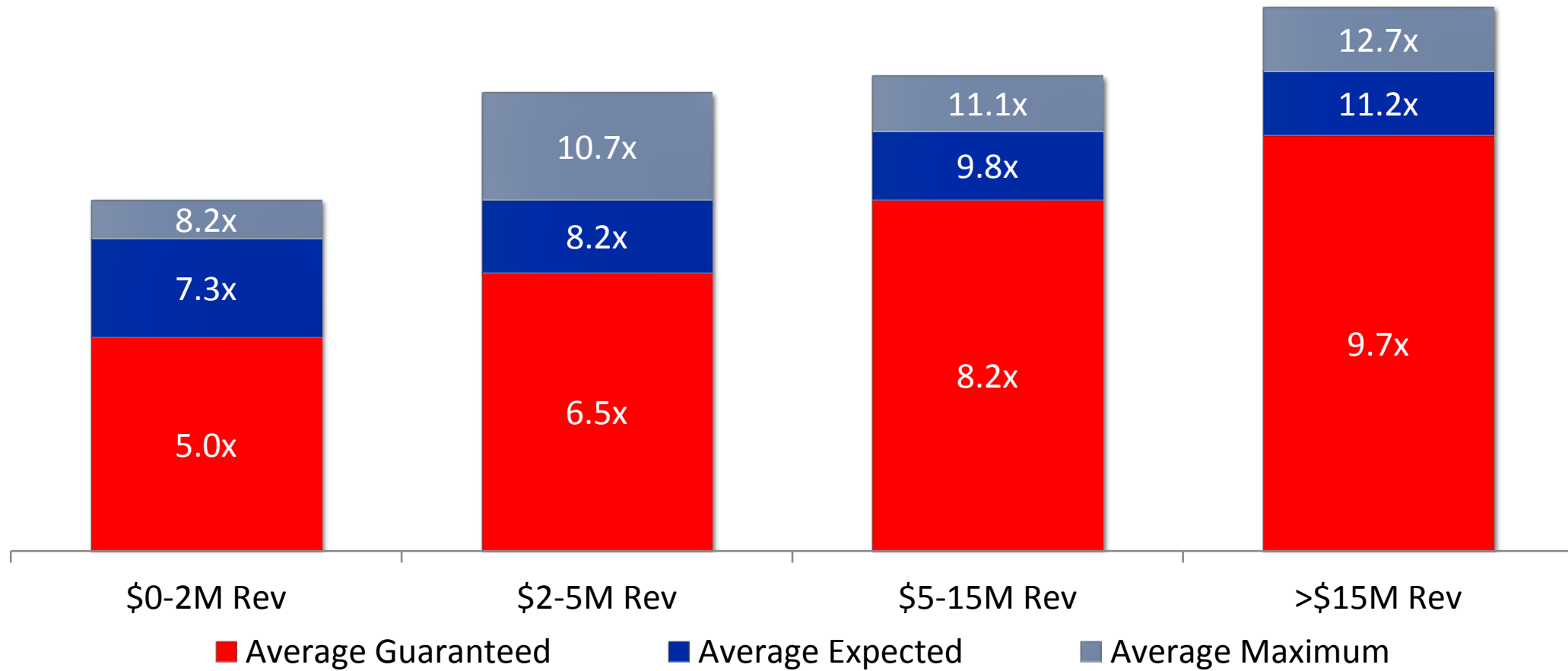
Deal Valuations as a Multiple of EBITDA



Note: Represents pricing for agencies with \$3-\$10 million in revenue

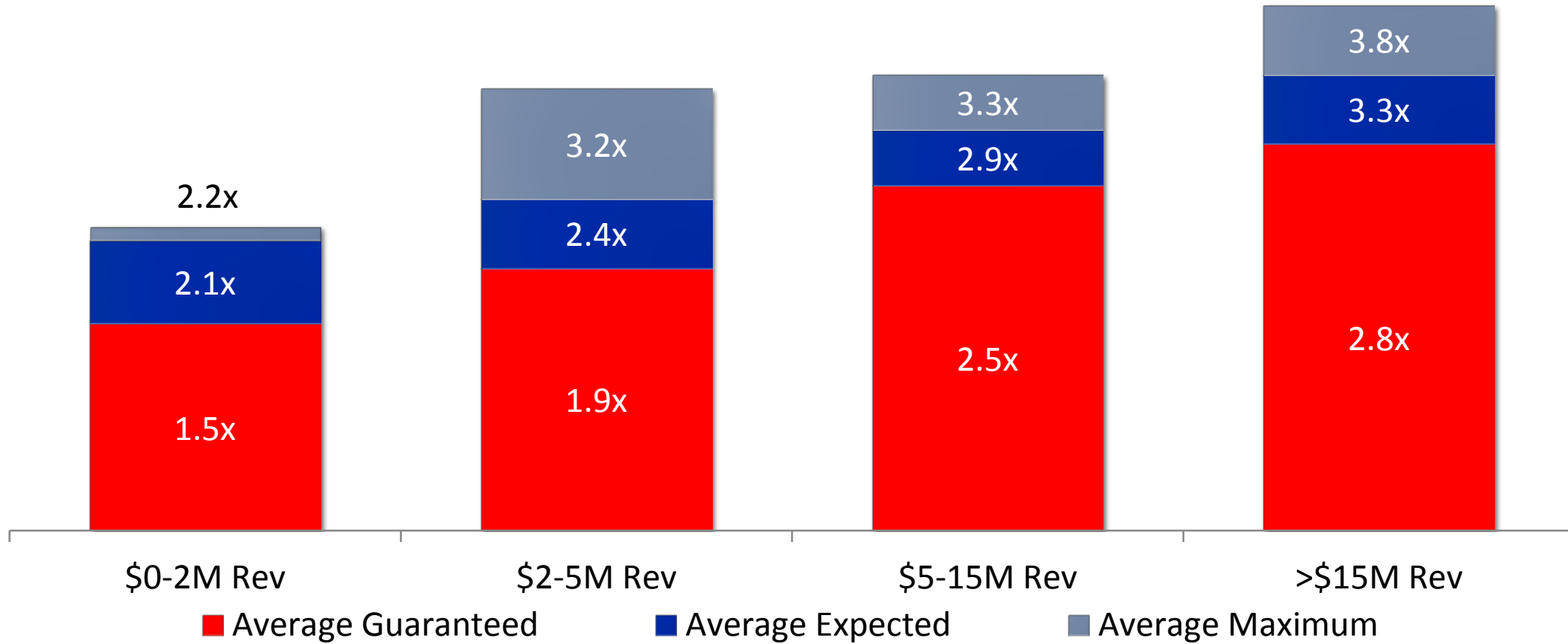
2015-2016 M&A Transactions

EBITDA Multiples

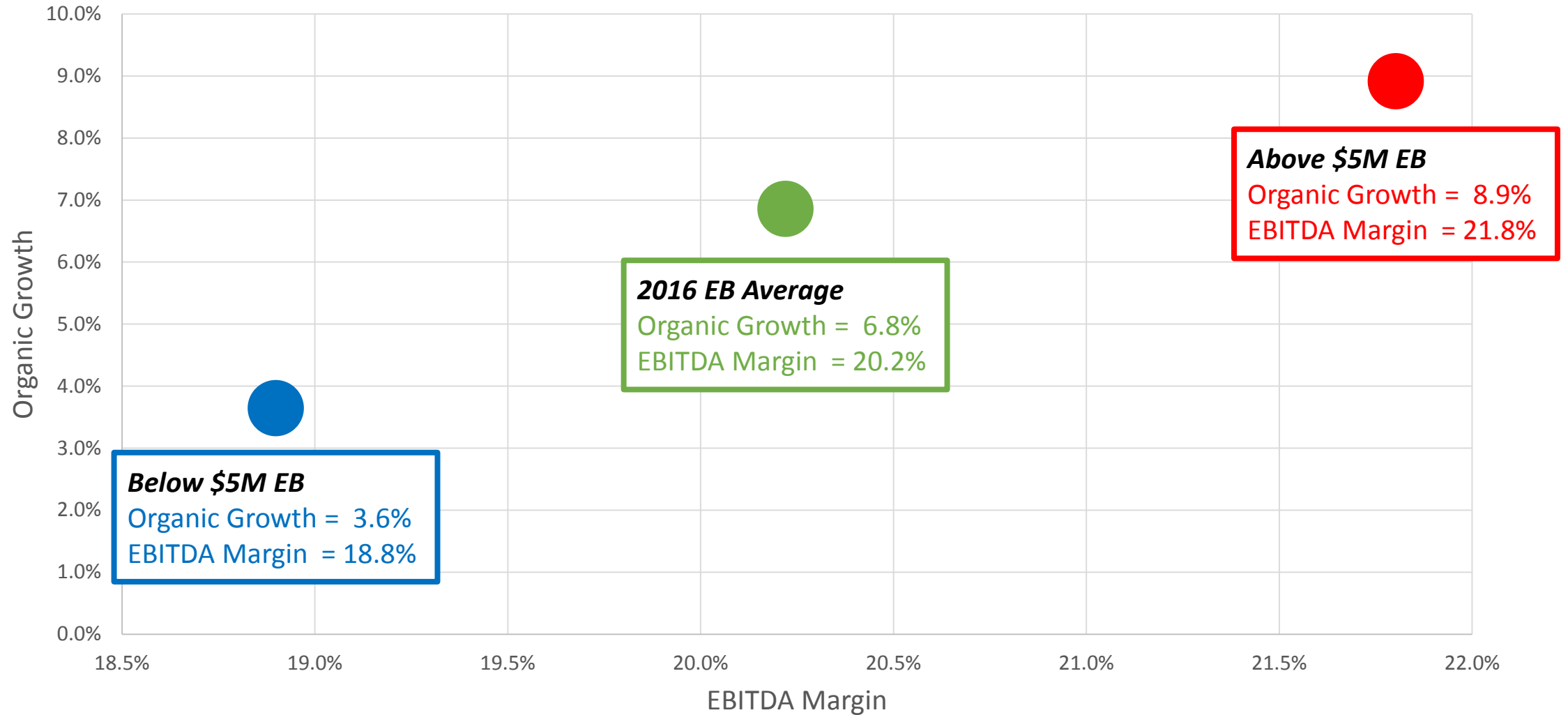


2015-2016 M&A Transactions

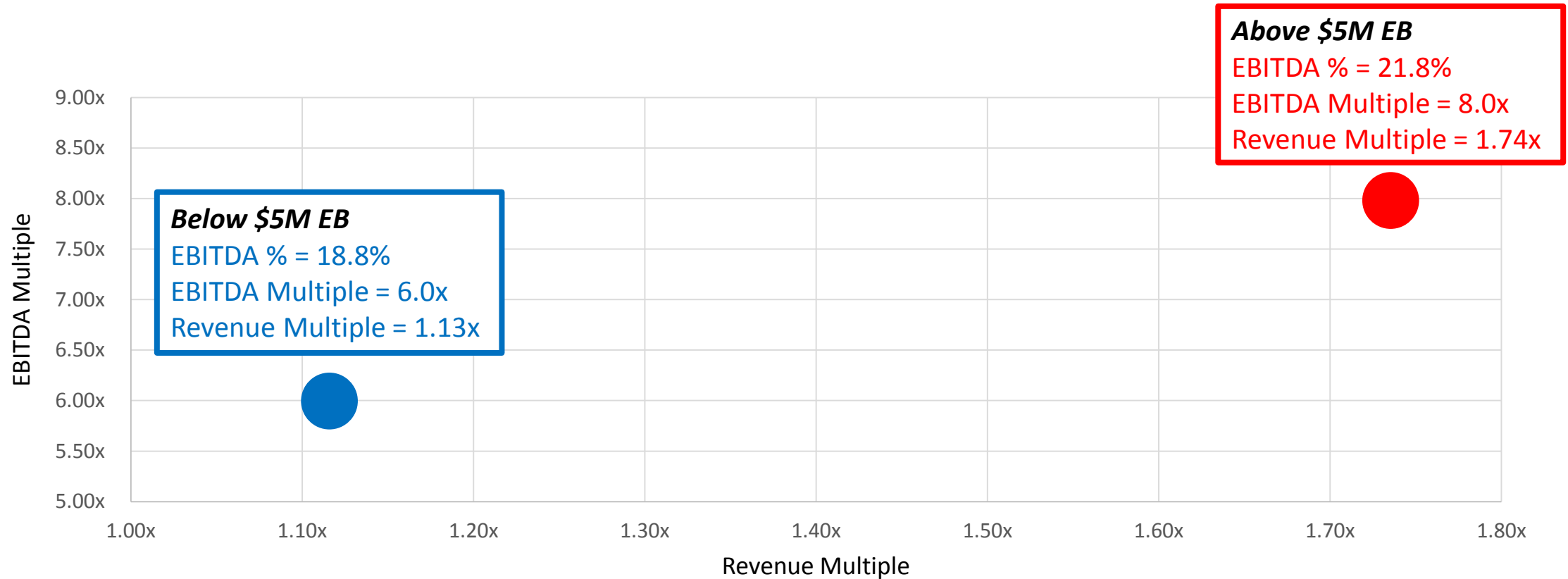
Revenue Multiples



The Scale Advantage in Employee Benefits



Scale and its Impact on Value



Valuation Size Premium

55%

Why Does Size Matter?



1 Dedicated leadership

2 Depth of resources



3 Ability to fund investments in producers and support

What to Look for as a Buyer or a Seller

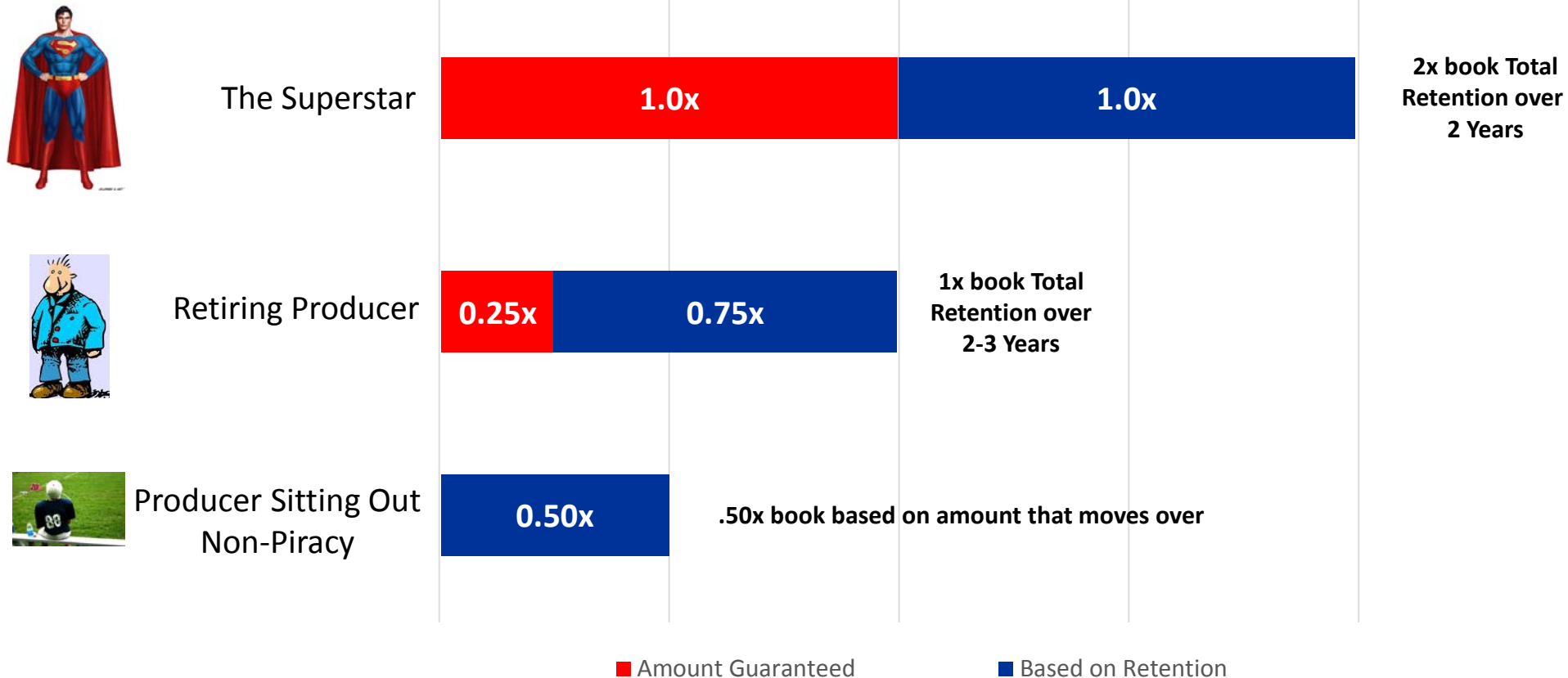
If You are a Buyer

- Scale matters (size of firm and size of clients)
- Fast-growing firms
- Specialized firms
- Talent-rich firms

If You are a Seller

- Price
- Terms
- Cultural fit
- Integration risk
- Equity opportunity

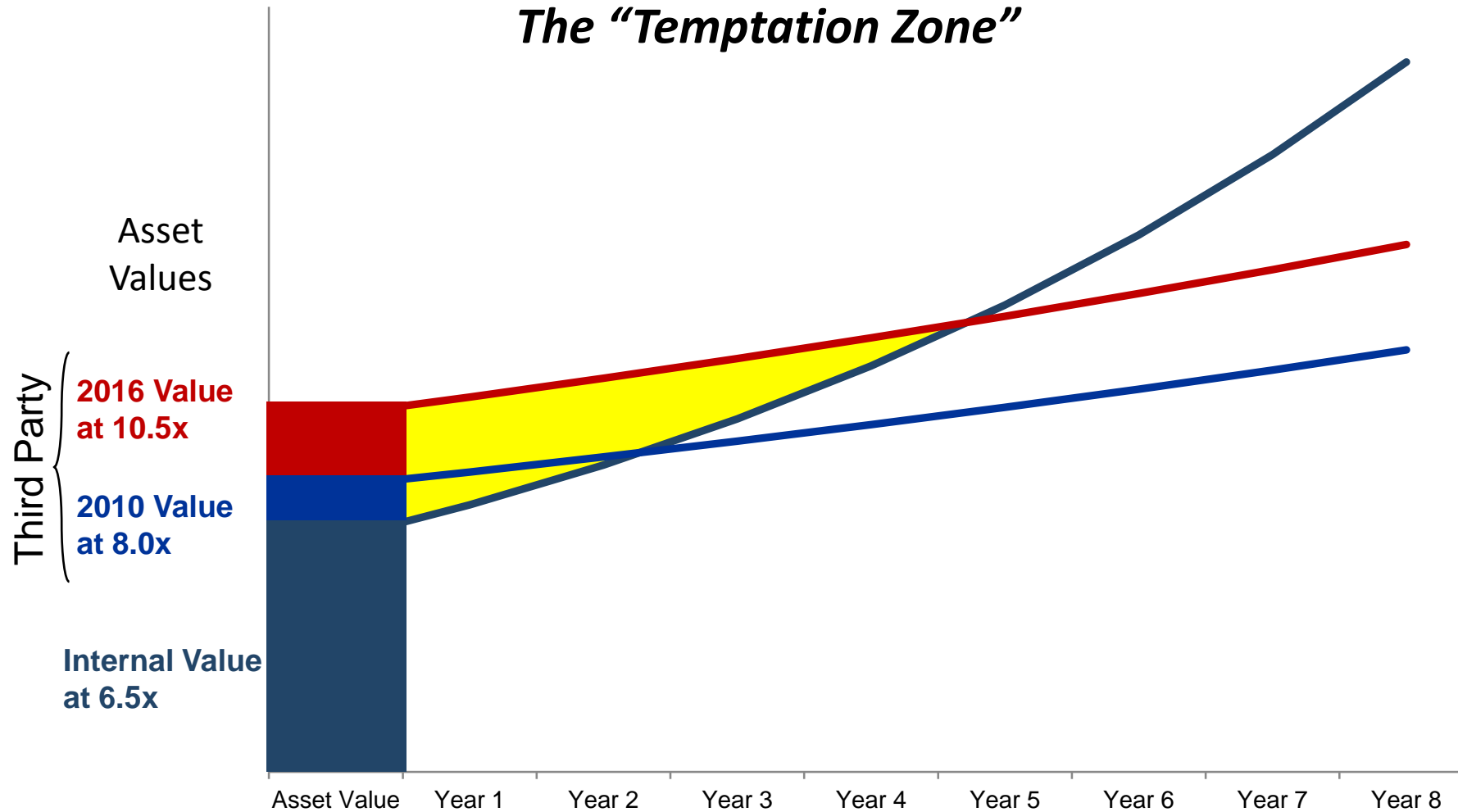
Pricing a Book of Business Acquisition



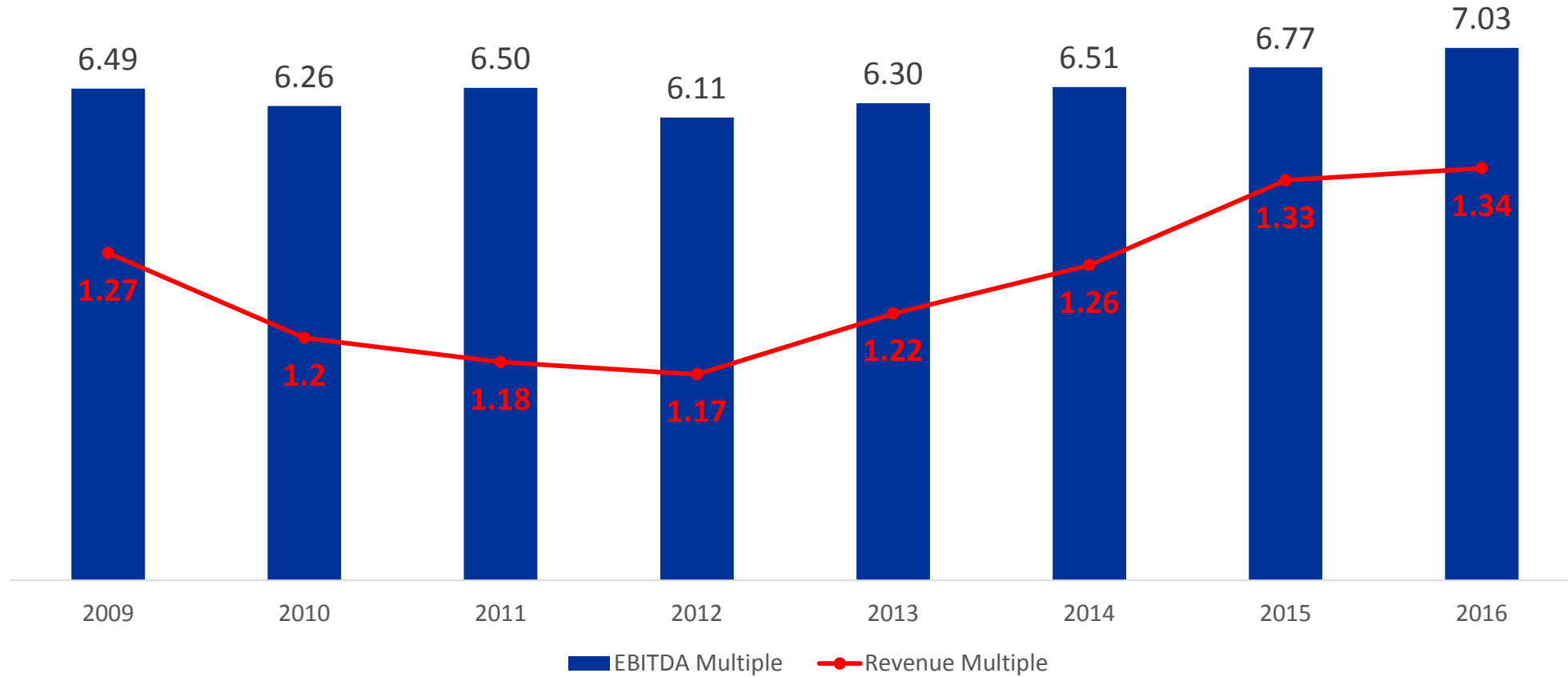
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Internal vs. External Valuations and Returns

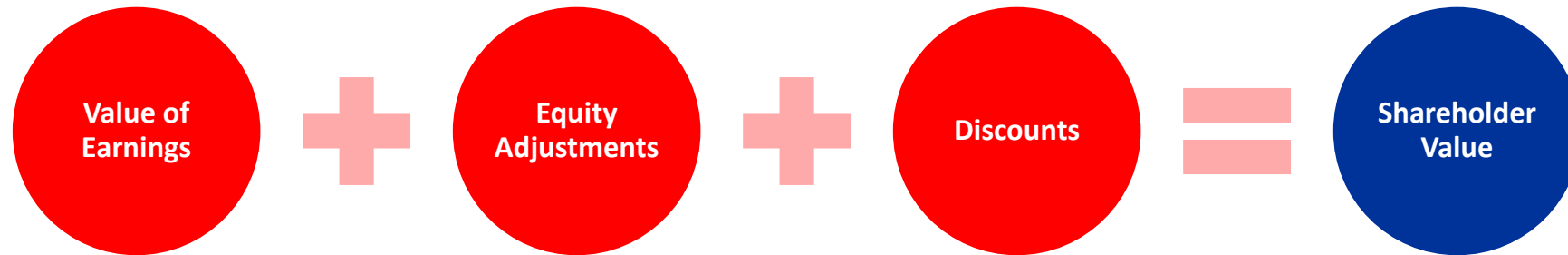


Typical RVI Valuation Multiple



Source: Reagan Value Index

Components of Value



- Multiple of EBITDA
- “Headline” valuation
- Multiple applied to trailing twelve months’ EBITDA
- Includes fixed assets

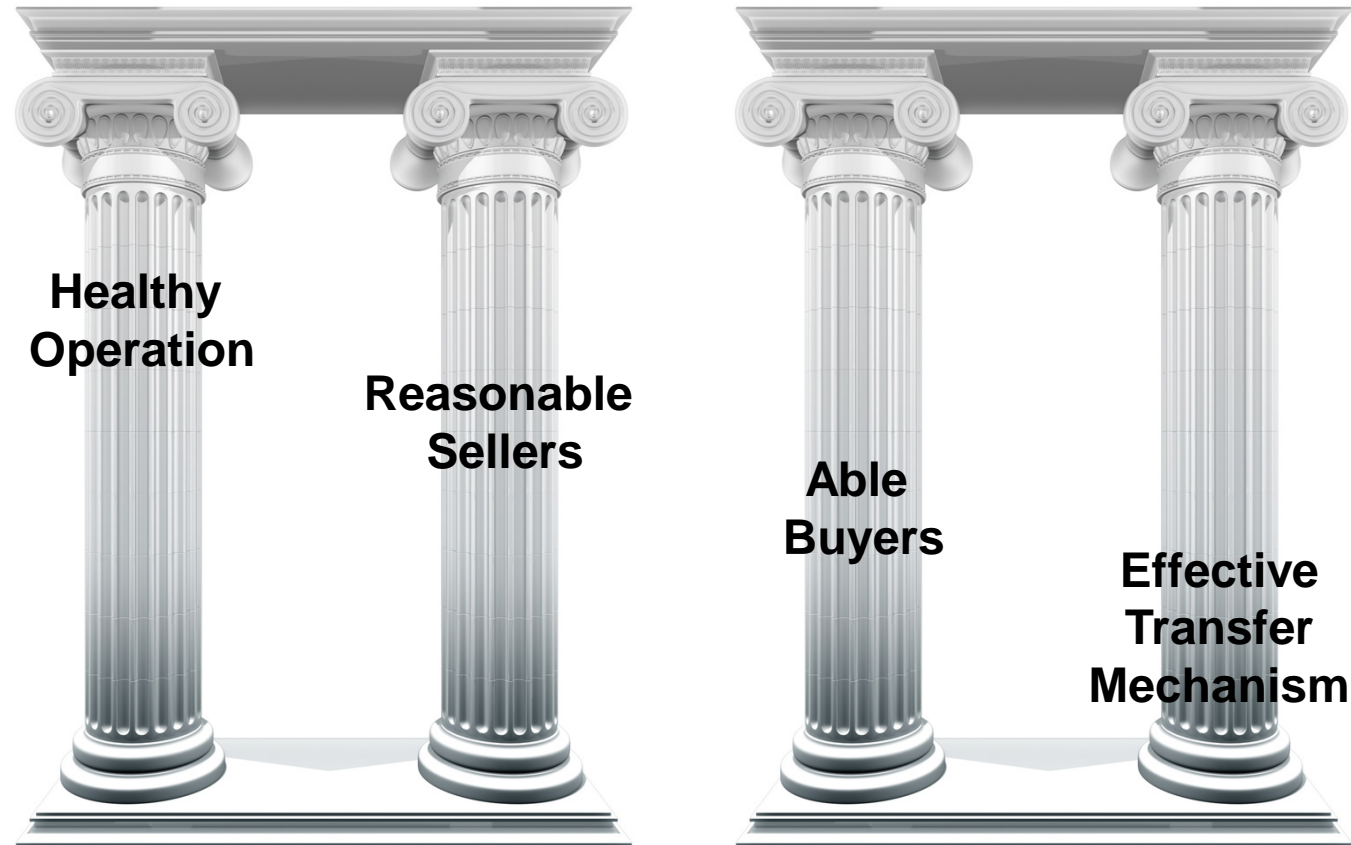
- Adjusts for items not included in the value of earnings
 - Working capital surplus/deficit
 - Non-operating assets not required for the business
 - Long-term liabilities (value claimed by non-equity holders)

- Marketability and Minority discounts can be considered in internal valuations

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The Four Pillars of Agency Perpetuation



What will it take to win in 2020?

- 1) Dedicated leadership that works “on the business,” not just “in the business”
- 2) Resources – and insight about when to build, buy or partner
- 3) Ongoing commitment to reinvest
- 4) Offensive playbook and QBs with the skill-set to run the offense
- 5) Technology-savvy

Today's Speaker



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Brian Deitz joined Reagan Consulting in 2006 and is a partner of the firm. Brian's primary areas of expertise are mergers & acquisitions and agency valuations.

Prior to joining Reagan, Brian spent over four years working in mergers and acquisitions for The Home Depot, leading valuation exercises and due diligence processes. Prior to his tenure at The Home Depot, Brian worked in investment banking for Deutsche Banc Alex. Brown in Baltimore, MD.

Brian is a Certified Valuation Analyst (CVA) and he graduated from the University of Virginia with an undergraduate degree in Commerce, concentrating in Finance and Marketing. He currently maintains the Series 24, 63, and 79 FINRA Registrations through Reagan Securities, Inc., the affiliated FINRA-registered Broker/Dealer of Reagan Consulting, Inc.