



## The GPS Industry Snapshot | Q3 2023

- 10.2% Median industry organic growth
- 10.0% Projected year-end 2023 organic growth
- 26.9% Median industry EBITDA margin
- 25.0% Projected year-end 2023 EBITDA margin
- 11.3% Median commercial lines organic growth
- 10.0% Median personal lines organic growth
- 6.4% Median group benefits organic growth

## Stat of the Quarter

# 10.0%

### Median personal lines organic growth

Brokers posted the second highest quarterly Personal Lines Organic Growth rate on record and the highest result in GPS history for Q3. Personal lines also generally has the highest profitability of the three main lines of business, achieving 28.1% in Q3 2023.

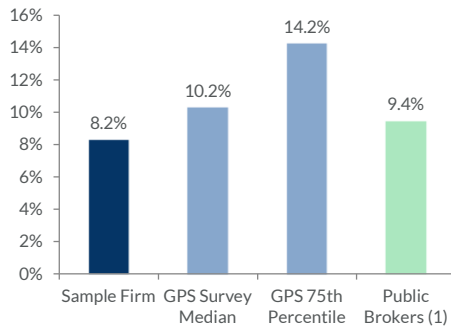
*Reagan's Growth & Profitability Survey is a real-time, quarterly look at the key drivers of value creation in the brokerage industry: organic growth and EBITDA margin. In Q3 2023, approximately 165 agencies participated in the GPS, with median annual revenues of approximately \$17.5 million.*



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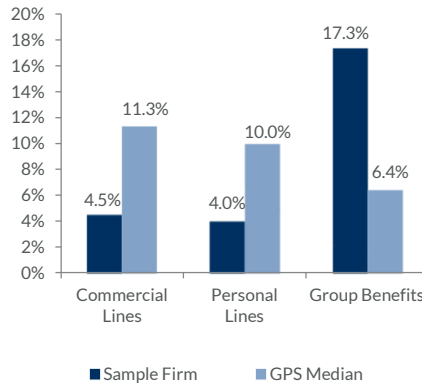
## ORGANIC GROWTH

TOTAL AGENCY ORGANIC GROWTH

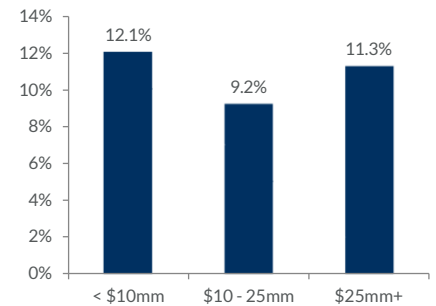


Sample organic growth rank: 20th - 30th percentile

ORGANIC GROWTH BY PRODUCT LINE

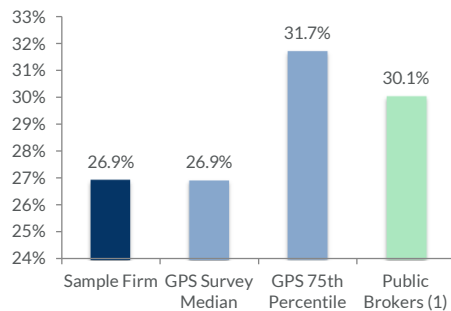


ORGANIC GROWTH BY SIZE CATEGORY



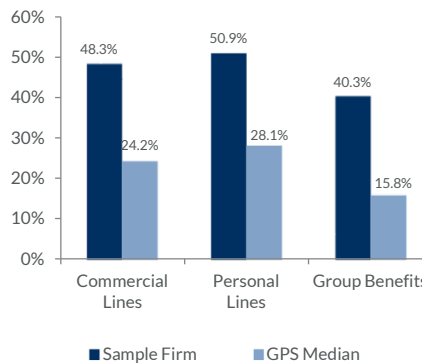
## PROFITABILITY

TOTAL AGENCY EBITDA MARGIN

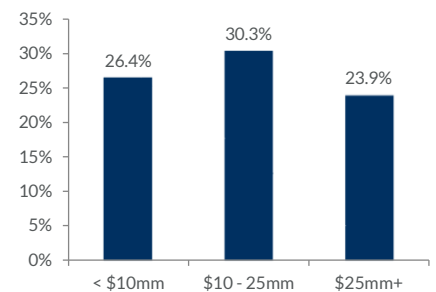


Sample profitability rank: 50th - 60th percentile

EBITDA MARGIN BY PRODUCT LINE

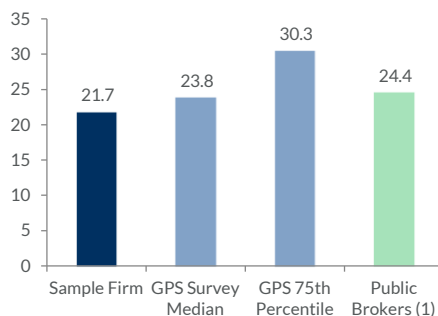


EBITDA MARGIN BY SIZE CATEGORY



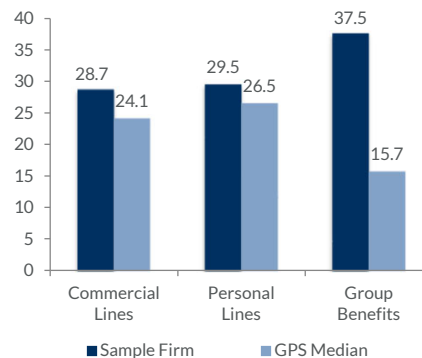
## THE RULE OF 20

TOTAL AGENCY RULE OF 20

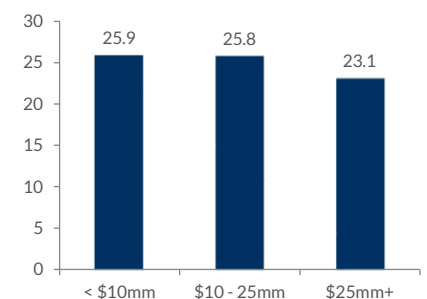


Sample Rule of 20 rank: 30th - 40th percentile

RULE OF 20 BY PRODUCT LINE



RULE OF 20 BY SIZE CATEGORY



### The Rule of 20

Reagan Consulting has developed a metric called the "Rule of 20" to provide a quick means of benchmarking an agency's shareholder returns. The Rule of 20 is calculated by adding half of an agency's EBITDA margin to its organic revenue growth rate. An outcome of 20 or higher means an agency is likely generating, through profit distributions and / or share price appreciation, a shareholder return of approximately 15% - 17%, which is a typical agency / brokerage return under normal market conditions.

Note: If data for Sample firm reads "0.0%" or "0.0" it may mean that no data was submitted for that metric.

(1) Represents Q3 2023 results for AJG, AON, BRO, MMC and WLTW.

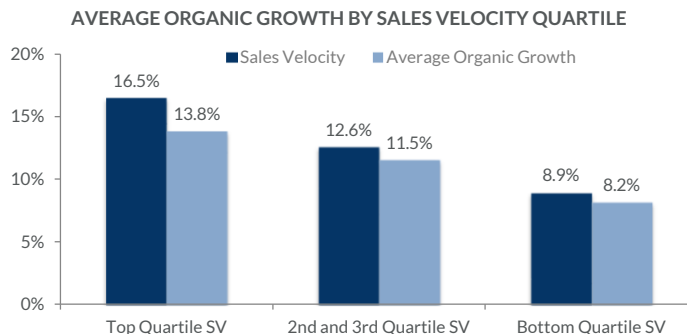
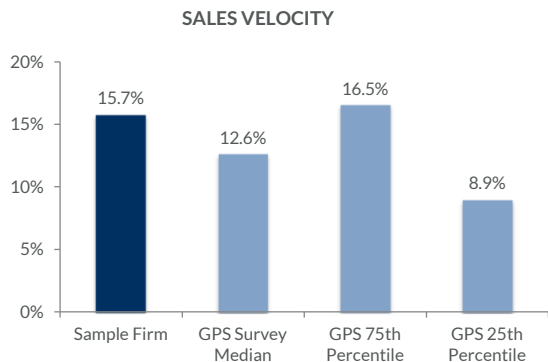


### Scatter Plot

The goal of this scatter plot is to show the wide range of organic growth and profitability results in the industry and to benchmark where your firm falls. It shows every firm that completed the survey's total agency organic growth section and total agency profitability section. Each firm's organic growth is plotted along the x-axis, and each firm's profitability is plotted along the y-axis. The grey dotted lines show the top and bottom 25% of firms in organic growth and profitability. The solid green line represents all combinations of organic growth and EBITDA margin that result in a Rule of 20 score of 20. The firms are broken into groups based on revenue size, as distinguished by the different colored dots.

Note: Scatter plot represents Q3 2023 results for AJG, AON, BRO, MMC and WLTW.

## SALES VELOCITY



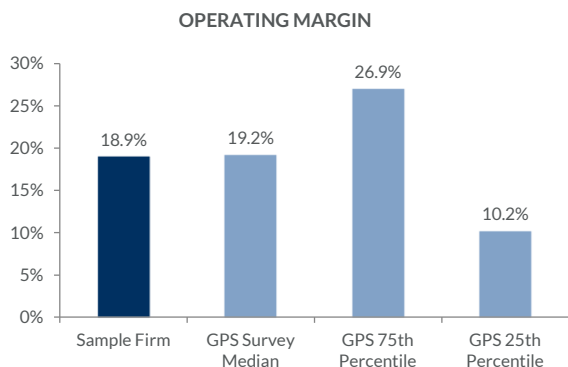
### Sales Velocity

Reagan Consulting has developed a metric called "Sales Velocity" to benchmark an agency's new business results. Sales Velocity is calculated by dividing the new business written in the current year by the prior year's commissions and fees. The above graph shows average organic growth by sales velocity quartile - firms with the highest Sales Velocity post outsized organic growth.

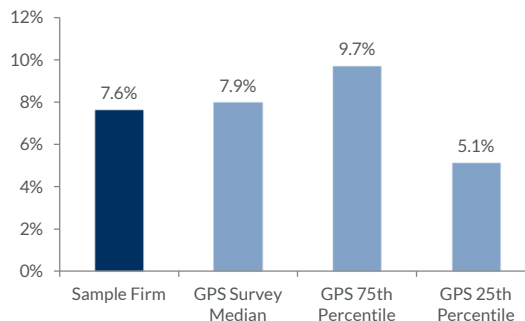
Sample Sales Velocity rank:

60th - 70th percentile

## OPERATING MARGIN & CONTINGENT INCOME AS % OF REVENUE



### CONTINGENT/BONUS/OVERRIDE INCOME AS A % OF REVENUE



Sample Operating Margin rank:

40th - 50th percentile

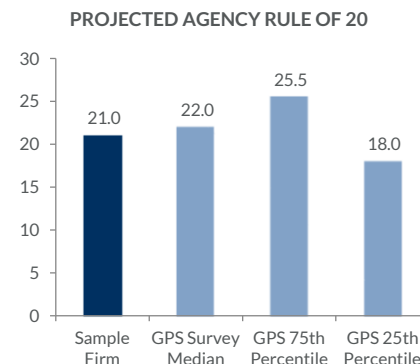
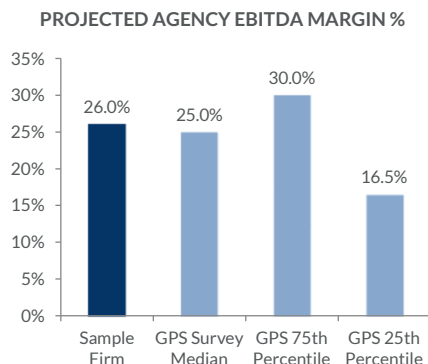
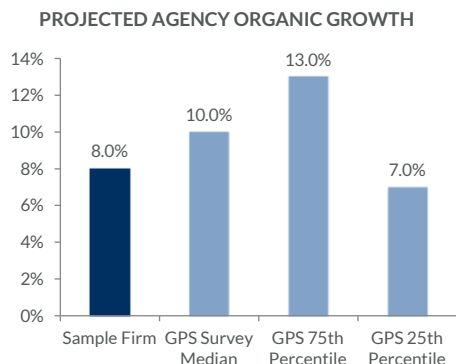
Sample Bonus Inc. as % of Revenue rank:

40th - 50th percentile

### Operating Margin

Operating Margin is calculated as EBITDA less contingent / bonus / override income, divided by pro-forma net revenues less contingent income.

## 2023 PROJECTIONS



Sample organic growth rank:

20th - 30th percentile

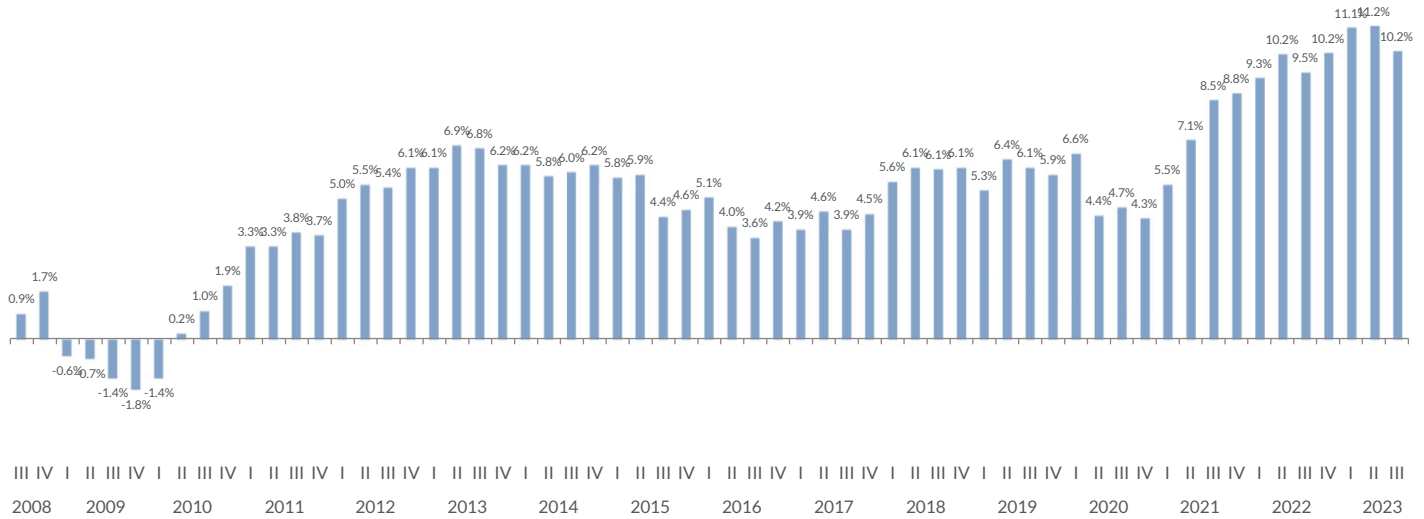
Sample EBITDA margin rank:

50th - 60th percentile

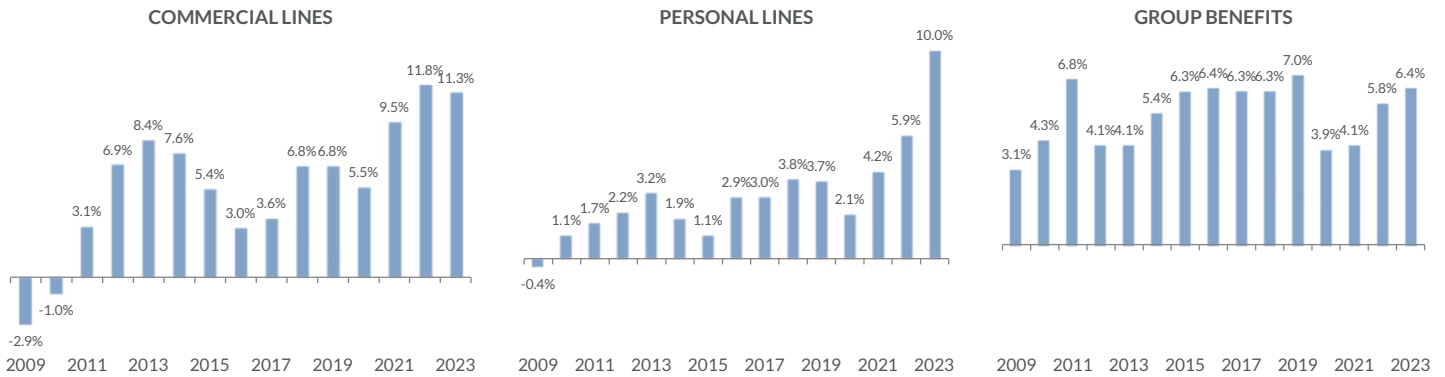
Sample Rule of 20 rank:

40th - 50th percentile

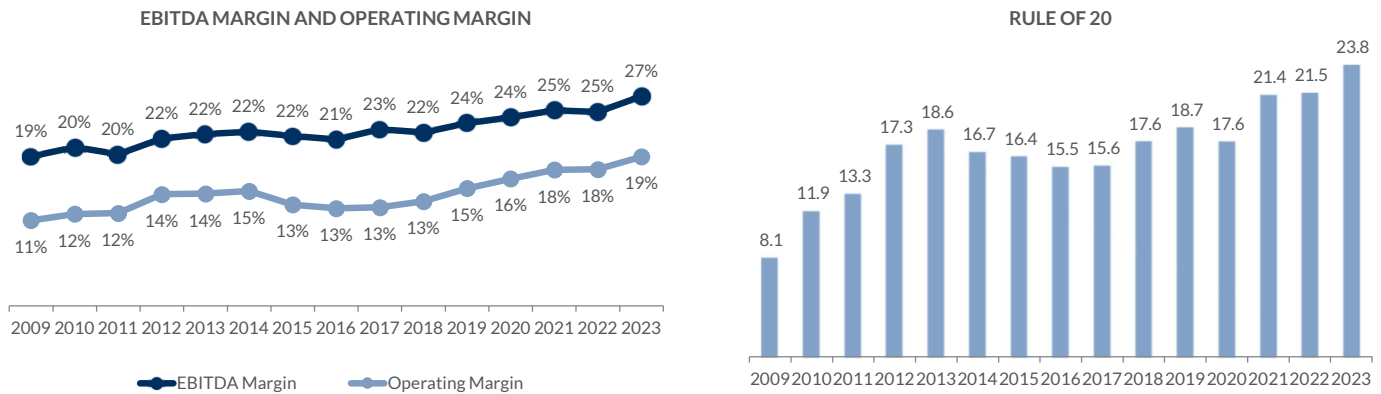
**QUARTERLY ORGANIC GROWTH - TOTAL AGENCY MEDIAN**  
(Q3 2008 - PRESENT)



**COMPARATIVE MEDIAN ORGANIC GROWTH BY PRODUCT LINE**  
(THIRD QUARTER NUMBERS, 2009 - 2023)



**COMPARATIVE MEDIAN PROFITABILITY AND RULE OF 20 ANALYSIS**  
(THIRD QUARTER NUMBERS, 2009 - 2023)



**EBITDA Margin and Operating Margin**

EBITDA Margin is calculated by dividing a firm's pro-forma EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) by the firm's pro-forma net revenues. Operating Margin is calculated as EBITDA less contingent / bonus / override income, divided by pro-forma net revenues less contingent income.



### Strength in the Face of Uncertainty

by Harrison Brooks

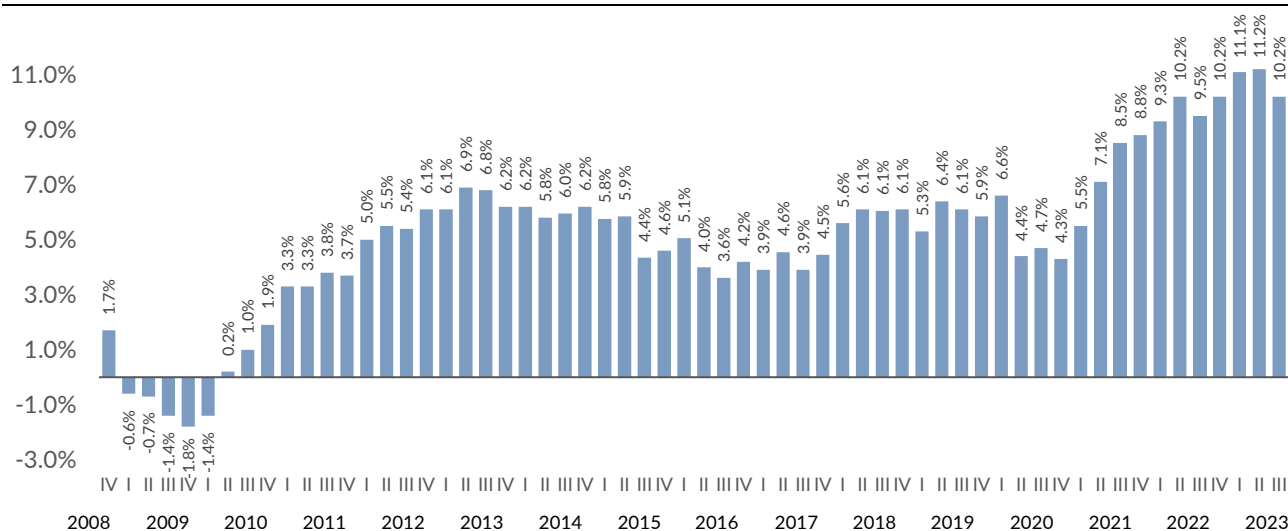
[harrison@reaganconsulting.com](mailto:harrison@reaganconsulting.com)

Inflation, interest rates, unrest in the Middle East, the Russia-Ukraine war, and upcoming elections, among other headlines, have created increasing levels of uncertainty in 2023. However, despite the circumstances, agents and brokers have not really been significantly impacted. While the insurance industry tends to lag the market, agents and brokers continue to march forward at an exceptional pace – even if it is slightly below the last two quarters.

#### Q3 2023 Organic Growth Still at Record Levels

For the first time in 2023, agents and brokers did not set a new organic growth record. However, the median Q3 2023 organic growth for agents and brokers was 10.2%, which is tied for the third highest quarterly growth rate in the history of the GPS survey and just 1.0% behind the previous quarter. This deceleration could be a sign of certain economic realities beginning to impact the industry. However, the continued positive P&C rate environment and increased exposures driven by inflationary trends will help agents and brokers counterbalance market pressures.

#### Quarterly Organic Growth Q4 2008-Present

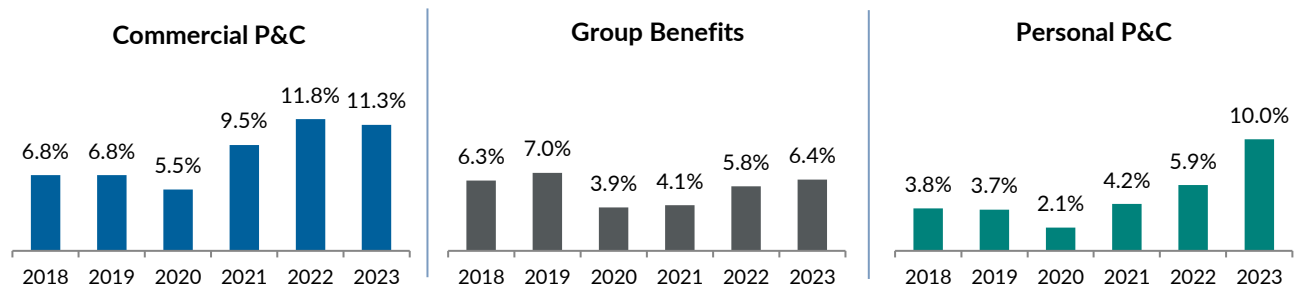


Source: Reagan Consulting Growth & Profitability Survey

#### Breaking Down Q3 Organic Growth Performance

Commercial lines have led the way for agents and brokers during the record growth spurt that started near the decline of COVID in 2021. However, in 2023, personal lines have emerged as a major storyline, posting organic growth rates of 10.6% in Q1, 9.3% in Q2, and now another whopping 10.0% in Q3, which is over 400 basis points higher than the previous Q3 record achieved in 2022 of 5.9%.

### Q3 Organic Growth by Line of Business



Source: Reagan Consulting Growth and Profitability Survey, Q3 results

**Commercial Lines:** Commercial lines posted their second highest Q3 growth rate on record of 11.3%, which still outpaces the two other primary lines of business – but by a decreasing amount. While Q3 2023 P&C pricing results are not yet published by the CIAB, anecdotal accounts from agents and brokers signal the strong P&C rate environment will continue.

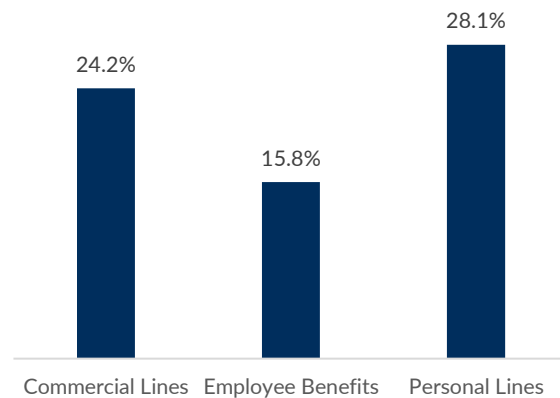
**Group Benefits:** Group benefits have continued their resurgence in 2023 posting 6.4% growth in Q3 vs. 6.5% in Q2 2023 and 5.8% in Q3 2022. This line of business, which was the most consistent line of business in GPS from 2015-2019, is again near pre-COVID growth levels. Expect this trend to continue as executives and HR leaders are focused on making their workplaces desirable destinations.

**Personal Lines:** As mentioned above, personal lines set another Q3 record, posting their second highest quarterly growth rate of 10.0% vs. 10.6% in Q1 2023. Personal lines have outperformed historical norms and become a differentiator for many agents and brokers seeking to round out accounts and create stickier client relationships. Personal lines generated the highest profit margins of any line of business in Q3 with reported median EBITDA margins of 28.1%. Debt strapped brokers are embracing personal lines to bolster agency profitability and respond to Wall Street’s profit expectations. Brokers’ ability to maintain their personal lines books and grow them has not come easily, as some carriers have begun exiting certain geographies or have stopped writing new business altogether. This has led many brokers to remarket personal lines at greater volume than ever before. Increased remarketing and rising premiums have created a very difficult dynamic for agency service staff.

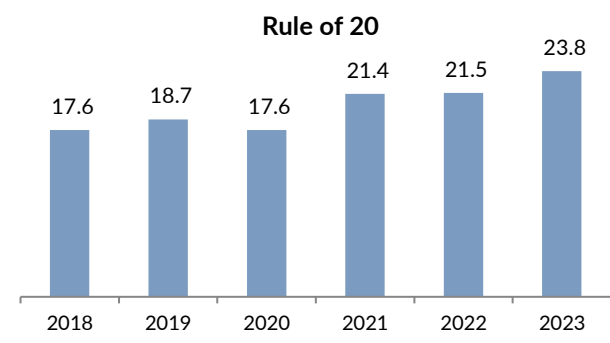
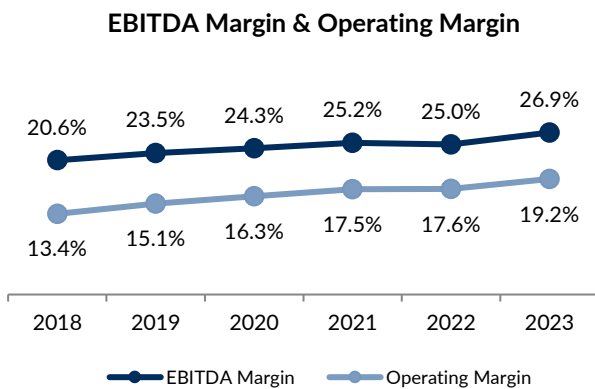
*Profitability Increases*

Organic growth is the most significant driver of profitability. As growth goes, profitability generally follows. Like the growth story, EBITDA margins expanded from 25.0% a year ago to 26.9% in Q3 2023. Similarly, operating margins (which exclude contingent/bonus income from carriers) increased from 17.6% in Q3 2022 to 19.2% in Q3 2023, a new Q3 record. Given that median contingents as a percent of revenue are approximately 10 basis points lower than Q3 of 2022, profitability increases in Q3 2023 were not likely a result of contingent income. Agents and brokers are servicing similar customer bases at greater revenues in the present rising rate environment without having to add staff. This combined with sustained double-digit personal lines growth has buoyed profitability in 2023. Time will tell if agents and brokers can maintain these heightened levels of profitability without significantly expanding their service staff and employee forces in the face of such difficult market dynamics.

Median EBITDA Margin by Line



Q3 Profitability Metrics (2018-2023)



Source: Reagan Consulting Growth and Profitability Survey, Q3 2022 results

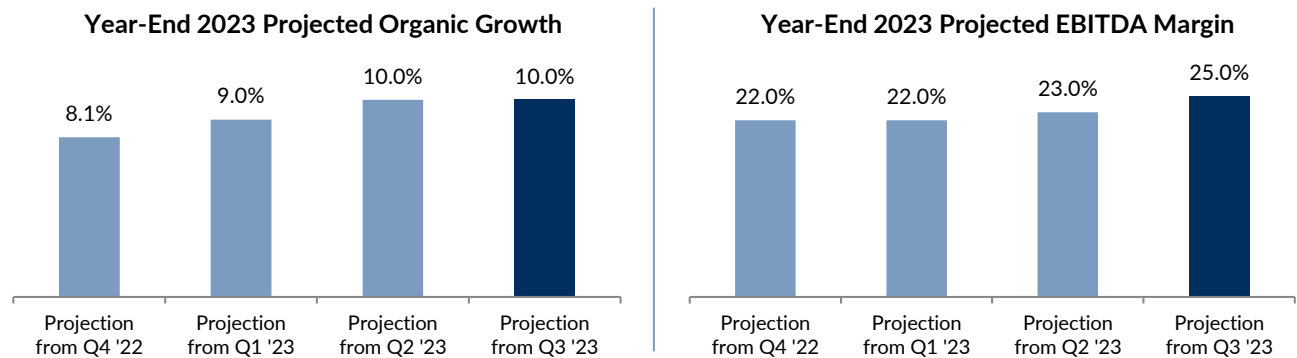
With strong organic growth and steady profitability (at historically elevated levels), the median Rule of 20 metric (calculated by adding an agency’s organic growth rate to one-half of its EBITDA margin) reached 23.8, the highest Q3 score ever recorded by 2.3 points. This figure, however, typically declines in Q4 since EBITDA margins are inflated during the first three quarters of the year by contingent/bonus income. This appears to be the case for 2023, as GPS firms are projecting a full-year 2023 Rule of 20 score of 22.0. For context, 2021 and 2022 are the only years in the history of the survey when GPS firms achieved a full-year score of 20 (20.6 in 2021 and 22.2 in 2022).



### What Happens Next?

Agents and brokers have continued to hold strong year-end organic growth estimates of 10.0%. If this metric is achieved, then agents and brokers would post the third-highest organic growth rate for a full year since the beginning of the GPS survey in 2008. Brokers have also been quite optimistic about profitability, estimating 25.0% in Q3 2023.

### Year-End 2023 Projections



After setting records in 2021 and 2022, it appears agents and brokers will post another flagship year in 2023, even in the face of significant market headwinds including global unrest, inflation, rising interest rates, and relatively low GDP growth. While we need to keep an eye out for decelerating growth trends as we enter 2024, agents and brokers continue to prove that they can thrive during uncertain times.

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