THE HALES REPORT

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Inside This Issue

The Hales Top 100 2021. Largest Commercial Focused Agents & Brokers In The U.S. Grow 19% YOY To $60.4B In Total Revenues.

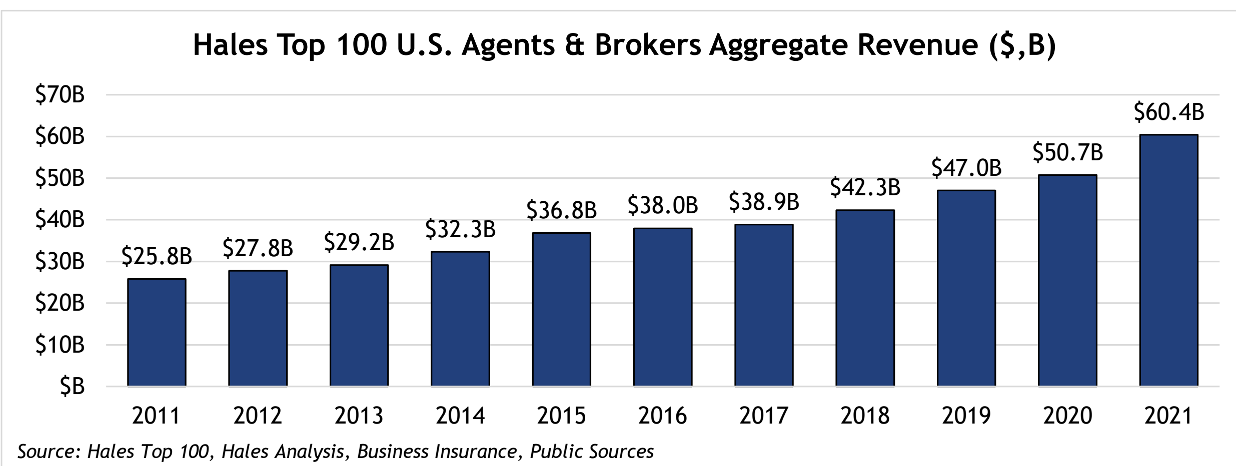
Our **"Hales Top 100"** U.S. agents & brokers grew fully 19% year-on-year to represent $60.4B of aggregate revenue, including not only organic growth (~10% on average) but significant revenue from acquisitions. The list ranges from **#1 Marsh McLennan with $9.4B of U.S. revenue to the #100 agency with $23.5M of revenue (The Richards Group).** Exhibit 1 summarizes interesting metrics / observations over recent years, discussed further below.

Exhibit 1

Hales Top 100 U.S. Agents & Brokers

Public	2019	2020	2021	YOY Chg
Revenue ($,B)	$27.2	$28.3	$31.6	12%
Top 100 Share	58%	56%	52%	-4%
Count	20	18	18	0
Private Equity				
Revenue ($,B)	$13.8	$16.1	$22.3	38%
Top 100 Share	29%	32%	37%	5%
Count	21	24	28	4
Private				
Revenue ($,B)	$6.0	$6.3	$6.5	4%
Top 100 Share	13%	12%	11%	-2%
Count	59	58	54	-4
$1B+ Brokers				
Revenue ($,B)	$37.3	$39.7	$47.9	21%
Top 100 Share	79%	78%	79%	1%
Count	13	13	15	2

Exhibit 2



- ❖ Notably, only 3 firms reported *lower* 2021 revenue, with all cases minimal YOY decreases and some unique circumstances: (i) #4 **Willis Towers** down 0.6% amidst the merger saga with Aon (substantial producer departures) and business sales; (ii) #34 **Paychex** -0.1%, reflecting the impact of COVID (and rate decreases) on workers comp, with the rebound coming through on a lagged basis; and (iii) #64 **Bowen, Miclette & Britt** down 1.1% YOY.

- ❖ Top 5 brokers by revenue are all **publicly traded** (as well as #7 **Truist**) and represent **$30B** of revenue, an increase of 11% in 2021, or 49% of the Hales Top 100 (53% in 2020). Notably, #6 **Acrisure**, with characteristics like PE, displaced Truist in this year's ranking and is within striking distance of **Brown & Brown** ($135M difference; for perspective public market value for B&B is $15.5B). In our full ranking, there are 18 companies with public ownership (typically within a larger publicly traded group i.e. banks).

- ❖ **Within the top 25 there are 16 private equity backed "aggregators"** which represent $20.7B of revenue (34% of total vs. 30% in 2020), with growth of 31% in 2021. Across the entire Top 100 and including companies that have a hybrid PE/ Management ownership, <u>Private Equity firms are invested in 28 of the Top 100 agents representing 37% of top 100 share (vs. 32% in 2020)</u>. Revenues for the full group also grew 38% in 2021, reflecting the intense focus on "buying revenue" and the record M&A year in 2021 (some will flow into 2022).

- ❖ **6 firms more than doubled**: #27 **High Street**, #33 **World Insurance**, #19 **PCF**, #45 **Liberty Company**, #20 **BRP Group** and #22 **IMA Financial.** 10 other firms posted growth of >50%.

- ❖ Within the Top 100, our **"$1B Broker Club" now represents $48B of revenue** (vs. $40B YOY) or ~80% of total Top 100 revenues. See our last issue for a full update on the "$1B Broker Club," which has grown to fully 15 individual brokers (from just five 12 years ago) each with > $10B of U.S. premium (and increasing "power") within our Top 100 ranking.

- ❖ So far this year, there have <u>not</u> been any Top 100 <u>commercial</u> agency deals (vs. 6 at this time last year), but we note BRP's Westwood Insurance met the size threshold (at $82M; excluded from our tally due to personal lines focus).

- ❖ **Top broker thresholders continue to increase for the higher end of our rankings**, with the #10 broker up 27% to $2.3B, #25 +46% to $347M and #50 +10% to $89M. However, given the record consolidation last year, the threshold to be included in the Top 100 <u>decreased</u> -19% to $23M (vs. $29M in 2020). In total, 2021 saw 15 separate Top 100 deals representing $770M of acquired revenue.

The full "Hales Top 100" ranking follows. Next issue we will take a closer look at the data (and provide historical context).

Exhibit 3

Hales Top 50 U.S. Agents & Brokers

Rank			U.S. Revenue ($,M)			
2020	2021		2020	2021	% Change	Type
1	1	Marsh McLennan (MMC)	$8,168	$9,343	14.4%	Public
2	2	Aon PLC (AON)	$5,032	$5,459	8.5%	Public
4	3	Arthur J. Gallagher (AJG)	$4,186	$4,716	12.6%	Public
3	4	Willis Towers Watson (WTW)	$4,650	$4,621	-0.6%	Public
5	5	Brown & Brown (BRO)	$2,606	$2,974	14.1%	Public
9	6	Acrisure LLC	$1,931	$2,839	47.0%	PE / Management
6	7	Truist (TFC)	$2,335	$2,750	17.8%	Public
10	8	Alliant Insurance Svcs	$1,786	$2,612	46.2%	Private Equity
7	9	Hub International	$2,087	$2,435	16.7%	Private Equity
8	10	USI Insurance Svcs	$2,047	$2,289	11.8%	Permanent Private Capital
11	11	AssuredPartners	$1,687	$2,015	19.4%	Private Equity
12	12	Lockton	$1,583	$1,950	23.2%	Private
13	13	NFP Corp.	$1,457	$1,743	19.7%	Private Equity
14	14	BroadStreet Partners	$866	$1,151	33.0%	Private Equity
15	15	Galway Holdings (EPIC)	$898	$1,051	17.0%	Private Equity
16	16	Risk Strategies	$643	$930	44.6%	Private Equity
17	17	Alera Group	$580	$722	24.5%	Private Equity
18	18	OneDigital	$477	$593	24.4%	Private Equity
26	19	PCF Insurance Services	$235	$590	151.1%	Private Equity
24	20	BRP Group (BRP)	$241	$567	135.5%	Public
19	21	Higginbotham	$319	$452	41.8%	PE / Management
31	22	The IMA Financial Group	$207	$450	117.9%	PE / Management
20	23	Foundation Risk Partners	$314	$410	30.8%	Private Equity
29	24	The Hilb Group	$229	$402	75.8%	Private Equity
22	25	Leavitt Group	$291	$347	19.2%	Private
21	26	CBIZ Benefits & Insurance Svcs (CBIZ)	$300	$334	11.5%	Public
58	27	High Street Insurance Partners	$68	$291	329.8%	PE / Management
32	28	Woodruff-Sawyer	$191	$274	43.0%	Private
25	29	Insurance Office of America	$238	$260	9.1%	Private
28	30	Cottingham & Butler	$229	$254	11.0%	Private
23	31	Holmes Murphy & Associates	$243	$254	4.5%	Private
30	32	Cross Insurance	$215	$248	15.2%	Private
50	33	World Insurance Associates LLC	$82	$235	188.6%	PE / Management
27	34	Paychex Insurance Agency (PAYX)	$233	$233	-0.1%	Public
37	35	Relation Insurance Services	$137	$219	59.5%	Private Equity
39	36	Patriot Growth Insurance Services LLC	$125	$216	72.7%	Private Equity
33	37	Hylant Group	$149	$164	10.2%	Private
43	38	Newfront/ABD	$113	$161	43.1%	PE / Management
34	39	Unison Risk Advisors	$148	$155	4.9%	PE / Management
46	40	Cobbs Allen/CAC Specialty	$92	$147	60.1%	Private
35	41	Heffernan Group	$143	$145	1.7%	Private
40	42	INSURICA	$125	$142	14.0%	Private
38	43	BXS Insurance (BancorpSouth (BXS))	$131	$136	4.0%	Public
42	44	Meadowbrook / AmeriTrust	$115	$122	6.3%	Private
68	45	The Liberty Company Insurance Brokers	$50	$120	140.0%	Private
45	46	TrueNorth Cos.	$94	$103	10.2%	Private
48	47	Marshall & Sterling Enterprises	$83	$103	23.6%	Private
44	48	Eastern Insurance (Eastern Bank (EBC))	$97	$97	0.4%	Public
47	49	Lawley Service	$87	$91	4.0%	Private
51	50	Horton Group	$80	$89	11.0%	Private

Source: Dowling Hales Proprietary Survey

Exhibit 4

Hales Top 51 - 100 U.S. Agents & Brokers

Rank			U.S. Revenue ($,M)			
2020	2021		2020	2021	% Change	Type
55	51	M3 Insurance Solutions*	$82	$89	10.0%	Private
57	52	Sunstar Insurance	$72	$86	19.4%	Private Equity
63	53	The Loomis Co.	$55	$85	53.4%	Private
53	54	Huntington Insurance (Huntington Bank (HBAN))	$78	$83	6.4%	Public
52	55	Towne Insurance Agency (Towne Bank (TOWN))	$78	$82	4.7%	Public
56	56	Scott Insurance	$72	$80	11.3%	Private
70	57	Sterling Seacrest Pritchard	$47	$78	66.1%	Private
54	58	Houchens Insurance Group	$73	$78	7.2%	Private
59	59	Starkweather & Shepley Insurance	$66	$72	8.6%	Private
60	60	The Graham Co.	$63	$68	8.3%	Private
62	61	Moreton	$56	$61	9.7%	Private
99	62	ALKEME	$30	$60	100.0%	Private Equity
65	63	Robertson Ryan & Associates	$54	$58	7.9%	Private
64	64	Bowen, Miclette & Britt	$54	$53	-1.1%	Private
66	65	Frost Insurance Agency (Frost Bank (CFR))	$52	$53	1.9%	Public
97	66	Oakbridge Insurance	$31	$53	72.1%	Private Equity
67	67	Poms & Associates Insurance Brokers	$50	$52	4.0%	Private
74	68	HMS Insurance Associates Inc.*	$45	$50	10.0%	Private
NEW	69	Inszone Insurance Services	$25	$49	98.1%	Private Equity
69	70	The Mahoney Group*	$44	$49	10.0%	Private
72	71	FBBInsurance (Trustmark (TRMK))	$45	$49	6.9%	Public
73	72	The Partners Group	$44	$48	9.0%	Private
71	73	First Insurance Group LLC (First National (FINN))	$42	$46	8.8%	Public
92	74	Crest Insurance Group	$32	$46	44.0%	PE / Management
77	75	Charles L. Crane	$40	$45	12.3%	Private
80	76	Christensen Group	$39	$45	15.9%	Private
76	77	MJ Insurance	$41	$45	9.9%	Private
75	78	Ansay & Associates	$44	$44	0.4%	Private
81	79	James G. Parker	$38	$41	7.3%	Private
86	80	Kapnick Insurance Group	$36	$41	13.9%	Private
85	81	R&R Insurance Svcs	$37	$40	9.6%	Private
NEW	82	Reliance Partners	$21	$38	81.4%	Private
88	83	Haylor, Freyer & Coon*	$35	$38	10.0%	Private
87	84	The Buckner Co.	$35	$38	7.2%	Private
79	85	Rich & Cartmill*	$35	$38	10.0%	Private
83	86	M&T Insurance Agency (M&T Bank (MTB))	$37	$37	0.0%	Public
93	87	Tompkins Insurance (Tompkins Financial (TMP))	$32	$35	10.6%	Public
89	88	TRICOR Insurance	$33	$35	6.1%	PE / Management
NEW	89	The Plexus Group	$28	$34	19.2%	Private
104	90	Moody Insurance	$27	$32	19.8%	Private
96	91	Stahl & Associates Insurance	$31	$31	3.0%	Private
100	92	Ross & Yerger Insurance	$29	$31	7.6%	Private
101	93	Swingle Collins & Associates	$28	$30	5.4%	Private
106	94	John M Glover	$25	$29	16.0%	Private
102	95	Daniel & Henry Co	$28	$28	2.5%	Private
107	96	York International Agency	$24	$28	19.5%	Private
105	97	Gibson Insurance	$25	$28	9.8%	Private
NEW	98	McAnally Wilkins	$23	$24	4.4%	Private
NEW	99	Otterstedt Insurance Agency	$24	$24	1.1%	Private
NEW	100	The Richards Group	$23	$23	1.3%	Private

Source: Dowling Hales Proprietary Survey *2020 from Business Insurance; 2021 assumed +10% YOY (company would not disclose)

Dowling Hales

Dowling Hales acted as exclusive financial advisor to Elias B. Cohen & Associates in its sale to The Hilb Group

Headquartered in Roseland, New Jersey, Elias B. Cohen & Associates was founded in 1932 and is a leading independent insurance agency providing a full suite of insurance products and comprehensive risk management programs to its clients. The Company has been recognized as a trusted leader for insurance and risk management in the real estate and hospitality industries. Agency Principal Jonathan Cohen retired in conjunction with the transaction, while Principals Neil and David Owens and their team of insurance professionals will join Hilb's Tri-State regional operations.

E.B. COHEN INSURANCE AND RISK MANAGEMENT SINCE 1932	MBA Modern Business Associates	EAST COAST Underwriters, LLC
REPRESENTED BY DOWLING HALES*	REPRESENTED BY DOWLING HALES*	REPRESENTED BY DOWLING HALES*
HAS BEEN ACQUIRED BY	**HAS BEEN ACQUIRED BY**	**HAS BEEN ACQUIRED BY**
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FEBRUARY 2022	**JANUARY 2022**	**DECEMBER 2021**
*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC
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HAS BEEN ACQUIRED BY	**HAS BEEN ACQUIRED BY**	**HAS BEEN ACQUIRED BY**
Higginbotham™	HUB	AssuredPartners
DECEMBER 2021	**DECEMBER 2021**	**DECEMBER 2021**
*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC

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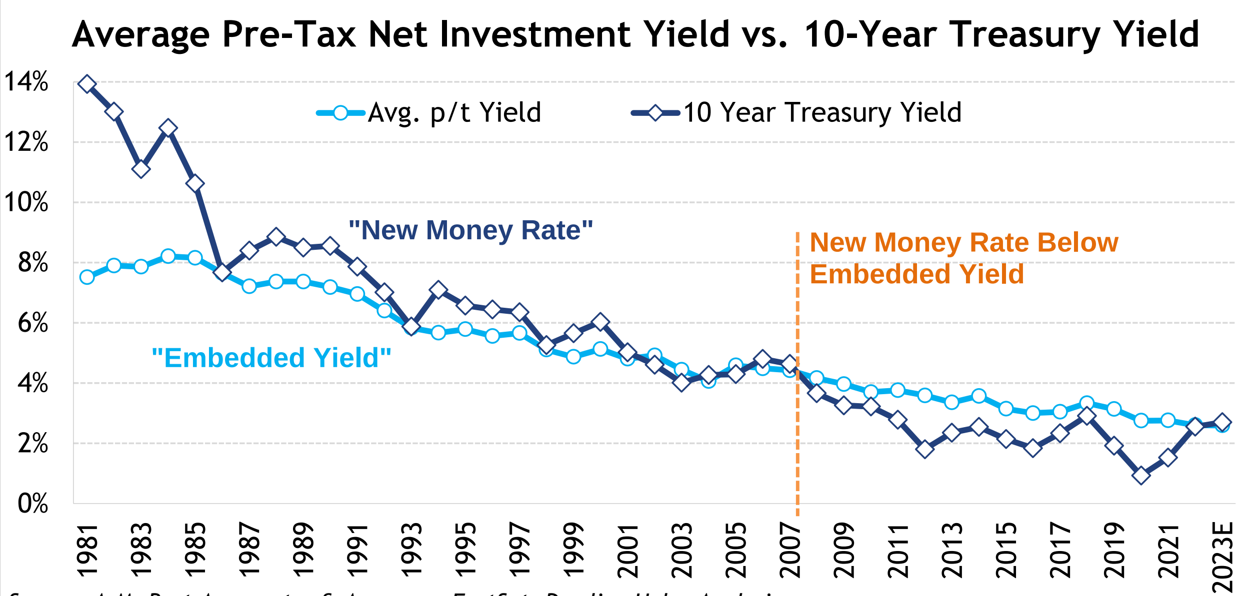
Higher Interest Rates Take Some Pressure Off Underwriters To Raise Rates *In Theory*. But Not So Fast! Remember, (i) Lags & (ii) Inflation!

Economic theory suggests **2 important implications for insurance intermediaries as interest rates move higher**, (i) deal multiples should decline (given higher costs of financing) and (ii) P&C insurance pricing should be more competitive (given underwriters are getting greater returns on their invested assets). **While we agree *in theory* these should occur, in today's *reality* we do not foresee either happening over the near-to-intermediate terms** (absent a more substantial/unexpected hike).

On M&A, it comes down to simple supply vs. demand dynamics, with >35 capitalized acquirers on the hunt for deals as the supply of agencies has dwindled (following eight record years for M&A). Give higher future financing costs and increased focus on recessionary impacts to the business we do expect greater scrutiny on lesser quality assets and/or increased suspicion around the "pro formas" pitched. But given the sheer # of buyers, **peak deal pricing is unlikely to change materially in this environment**.

It's also important to keep in mind that interest rates today are still very low by historical standards and, as it relates to carriers' investment income, the 10-year treasury yield has just recently moved *marginally* ahead of the average embedded yield in insurance companies' investment portfolios.

Exhibit 5



Source: A.M. Best Aggregates & Averages, FactSet, Dowling Hales Analysis

For nearly 15 years (since 2007), every time a bond matured in their asset portfolios (re)insurers were forced to invest in new bonds with a lower yield. They were running up the descending escalator! Now that the current yield on 10-Year treasury notes has converged with embedded yields, the “bleeding” has stopped and a modest tailwind could be expected. Many companies on their recent Q1 conference calls noted the available “new money” yield is *higher* vs. their embedded yields and some are putting more short-term investments and/or cash to work at the higher rates.

The matrix below helps to illustrate “the math” in combined ratio terms. For example, 30 years ago underwriters did not require an underwriting profit to deliver a mid-teens ROE (could be done with a combined ratio of 104-106%!). Today, with the impact of lower interest rates and leverage (premiums to surplus) a low- to mid- 90s combined ratio would be required to generate an “acceptable” return (say 700bps above the risk-free rate today). It’s never going to happen!

As such, we still believe rate increases are likely to continue in the mid- to upper-single digits going forward given (i) the industry has not even covered its cost of capital over the long term and is far short of these combined ratio targets (trailing 5-year CR ~100%), (ii) inflation has brought increased uncertainty around loss costs (most talk of needing to catch up to 5-6%+ loss costs now vs. 3-4% pre-pandemic), (iii) we’ve yet to meaningfully *exceed* the embedded portfolio yield and (iv) the “lags” of earning in the higher yields into the invested asset portfolios (average duration of 4-5 years suggests only 20-25% of the portfolio matures and can be reinvested at the higher rates each year).

Exhibit 6

ECONOMICS OF 700 BPS + RISK FREE RATE ACCIDENT YEAR ROE

		New Money Pre-tax Investment Yield										
		Today							2001		1986	
	P:S	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%
Today = 8.5%	70%	92%			96.2%	97.5%			92.2%	95.0%	91.2%	94.0%
Tax Rate = 21% E. Ratio = 28%	80%			96%	97.2%	98.4%			94.2%	96.8%	93.7%	96.3%
	90%								95.8%	98.2%	95.6%	98.1%
	100%								97.0%	99.3%	97.1%	99.5%
2001 = 12%	110%	88.5%	89.5%	90.5%	91.5%	92.6%	93.6%	95.8%	98%		98.4%	100.7%
Tax Rate = 35% E. Ratio = 27%	120%	89.6%	90.6%	91.6%	92.6%	93.6%	94.6%	96.7%		101%	99.5%	101.7%
	130%										100.3%	102.5%
	140%										101.1%	103.2%
	150%										101.8%	103.8%
	160%										102.3%	104.4%
	170%										102.9%	104.8%
	180%										103.3%	105.3%
1986 = 15%	190%	92.0%	92.8%	93.7%	94.6%	95.5%	96.3%	98.1%	100.0%	101.8%	104%	
Tax Rate = 35% E. Ratio = 26%	200%	92.5%	93.3%	94.2%	95.0%	95.9%	96.8%	98.6%	100.4%	102.2%		106%

Source: Dowling Hales Analysis

Note, required combined ratios at today’s 70-80% premiums-to-surplus (blue cells) are higher than in 2001 (orange cells) due to lower tax rate. At 35% tax rate the required combined ratios would be 4-5 points lower

Line of Business Considerations …

Importantly, the impact of interest rates varies significantly by line of business, given the different premium leverage and reserve durations (how long underwriters hold and invest premiums before paying claims, Warren Buffet's "float").

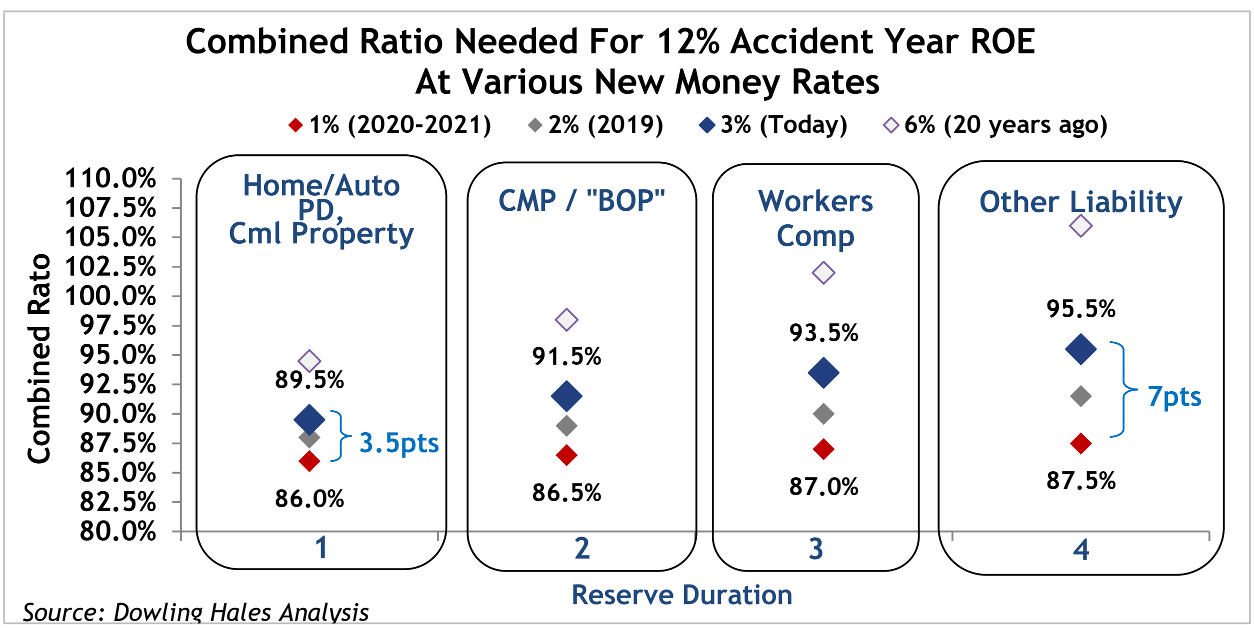
Again, we put it in combined ratio terms in Exhibit 7 below, showing **casualty lines with a longer reserving "tail" (longer time to invest reserves) benefit more from the higher interest rates.**

Based on the (admittedly simplistic) math we estimate lines like Other Liability and Product Liability (with a reserve duration of approximately 4 years) have a combined ratio threshold that is 7pts *higher* now vs. 2020-2021. Again, it's worth bearing in mind that it does not necessarily mean that long-tail business underwriters will chase more new business at the expense of premiums because inflation (including social inflation) is a particular concern for these lines.

By comparison, shorter "tail" lines of business such as Commercial Property, Homeowners and Auto are relatively less impacted by interest rates.

Again, in all instances the combined ratio "requirement" is far below the current reality of today's market save workers comp. The NCCI estimates the industry achieved an 87% combined ratio in 2021 (vs. target of 93.5% below), driving the ongoing rate declines / competition in this market.

Exhibit 7



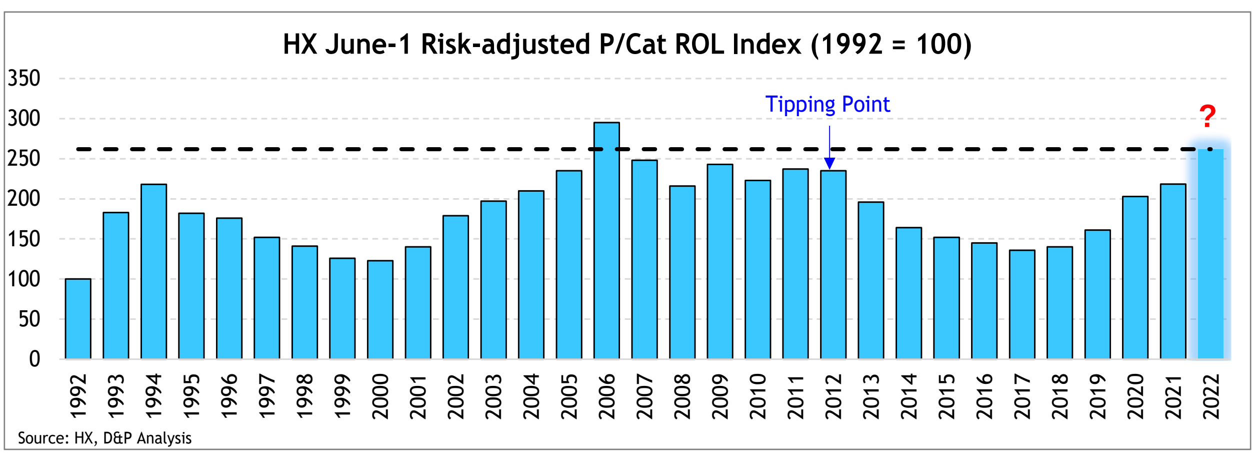
Florida Is On "Life Support" Days Away From Hurricane Season & Reinsurance Renewals (June 1). Politically Motivated "Special Session" Likely Too Little Too Late For Many Companies.

The Florida residential property market is a complete disaster. The thinly capitalized, Demotech rated "specialist" companies that support ~60% of the homeowners' premium volume in the state can barely survive amidst the rampant social inflation/fraud and inadequate premium levels in the state (7 failures over the last ~year) even *before* the impact of substantially higher reinsurance costs following the June 1 renewal and likely ongoing pressure from COGS inflation.

Mere days away from the start of hurricane season the Governor has convened a legislative session meant to relieve some pressure, but the <u>politically driven</u> proposals appear to just be kicking the can further down the road…to November (post elections and end of hurricane season).

The latest iteration of fraud in the Florida homeowners' market has been around roof repair (follows prior issues with sinkholes and AOB that had to be addressed legislatively) with perverse lawyer incentives driving the substantial litigation in the state (FL represents <10% of homeowners claims nationwide but close to 80% of litigated claims in the line!) **We see a mix of positives and negatives in the bill (which doesn't go nearly as far as insurers had hoped) but it's <u>likely too little too late for several of the specialists</u>. The legislation is also *unlikely* to meaningfully increase reinsurers' appetite at 6/1 as any benefits come through on a lagged basis.**

Exhibit 8



FL Senator Jeff Brandes summarized the current state of the market and acknowledged the fact that current proposals are far from enough (details on next page).

"We have to remember that the consumer and industry is on life support. I see this industry that has stage 4 cancer and is failing. The solutions offered here are like it has stage 1 cancer. Our team offered the multiplier language. If we offered this a while ago, we might've seen results. We are at stage 4. My concern is that the [reinsurance] layer we are offering is not enough on the Cat Fund. I am concerned about the 15 year provision in this bill. It doesn't help. It is unseen anywhere in the country.

The Commissioner has the authority to regulate what insurers do in their underwriting guidelines. We removed this with roofs. We aren't dealing with the cancer of roofs. It is a terrible provision. There will be companies that will not survive this year. We didn't address Citizens' radical growth. If Citizens was a regular insurance company, we would have never let it grow. This market has stage 4 cancer. We have to treat it seriously. **I am going to support this bill because we have to start somewhere."**

It remains to be seen what rating action **Demotech** (historically late to act) will take, if any, when companies fail to fully complete their reinsurance programs, but their president is taking a stronger stance (commenting this weekend): "If a carrier is writing business in any catastrophe prone jurisdiction and does not have its reinsurance program filled out prior to the expiration of its current treaty, the insurer can not be rated due to the gaps in its vertical and horizontal coverage."

As discussed previously, FedNat's main underwriting subsidiary (#7 homeowners writer in the state) had its' Demotech "A" rating downgraded to "S" (below the minimum standard accepted by the GSEs) in April, the first outright downgrade we've seen from Demotech and 4th **company** failure **in the last ~5 months** (**7 over the past ~year**).

Key tenants of the legislation currently proposed for the Special Session (beginning today) follow, but may be subject to change amidst the "kabuki dance" going down in Tallahassee this week. It will also be important to watch how any change in statute holds up / is "interpreted" by courts (another reason why reinsurers will tread cautiously).

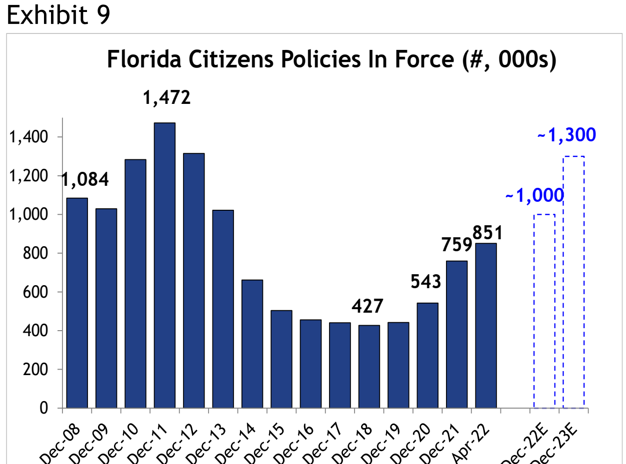
State-funded Reinsurance … The bills introduce a $2B "RAP" layer (Reinsurance to Assist Policyholders), which is free to insurers. The $2B layer of reinsurance coverage sits below the Florida Hurricane Cat Fund's $8.5B retention, which will help address some capacity issue, though provides hurricane only coverage. Insurers are then required to file a rate decrease to reflect these savings, so TBD the ultimate benefit.

Attorney Fees/ Litigation … Bills limit the contingency risk multiplier of attorneys' fees to "rare and exceptional" circumstances, stating the "lodestar" attorney fee calculation is sufficient, which multiplies reasonable number of hours by reasonable hourly rate. The change in attorney fee language looks to bring Florida's language closer to all other states in the U.S. The bills also restrict attorney fees from being transferred to/ assigned to others, helping to deal with assignment of benefits.

Roofing … The bills get rid of a troublesome 25% roof replacement rule, though only if the roof was built, repaired or replaced in compliance with the 2007 Florida Building Code requirements. The separate roof deductible, which is an "opt out," is positive, though doesn't apply if there is a total loss, damage from a hurricane, or if the consumer is only repairing less than 50% of the roof. Language restricting insurers from refusing to cover roofs older than 15 years old if an inspector says it has 5 years of remaining life is viewed as a negative for the market.

The Titanic (Citizens) Continues Taking On Passengers And There Aren't Enough Lifeboats … There was nothing included to remove / slow policy growth at Citizens. Assuming policies from FedNat go into Citizens, this would be an 8% increase to their current PIF (~851K) accelerating its path towards an estimated ~1M+ policies by year-end 2022. **The large growth at Citizens is opening up both their policyholders and non-Citizens policyholders to significant "assessments" if surplus is depleted.** We also expect more business will also shift to E&S.

Exhibit 9



Source: FL Citizens; Dowling Hales Analysis

Lockton Posts Nearly 27% Organic Growth in FY 2021 Driven By Investments In Teams & Talent. Domestic Revenue Now $1.95B (+23%)

Lockton, the world's largest privately held independent insurance broker, posted global revenues of $2.69B in its recently completed fiscal year 2021 (ends April 30), a 27% increase YOY noted to be "nearly all organic." Lockton is ranked #12 in our Hales 100 with $1.95B of domestic U.S. revenue reflecting +23% YOY, with strong growth across both P/C Commercial lines (+29%) as well as Personal / Employee Benefits (+15%).

Note, Lockton's leading organic growth (see comparison below) reflects a strategy of "acquiring" teams/talent (which bring revenues included in organic) rather than acquiring agencies (related revenue excluded from organic calculations in first year). **The company reportedly added >1,200 people over the last year**, including key hires in Transaction Liability, Cyber Surety and Marine. Growth has also been supported by international expansion (28% revenue outside of U.S).

> **"We are posting significant organic growth numbers in a brokerage industry where growth is typically driven by mega mergers, large acquisitions and private equity roll-ups**. Executing on a true organic growth strategy requires a different skillset where you're attracting people and clients one handshake at a time. We've experienced seismic momentum over the last 36 months, and after 56 years, we're just getting started."
>
> -Peter Clune, Lockton CEO

Exhibit 10

Broker Total Company Scorecard

Annual Organic Growth	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
A.J. Gallagher*	3.6%	3.6%	4.4%	5.6%	5.8%	3.1%	8.0%
Aon	3%	4%	4%	5%	6%	1%	9%
Brown & Brown	2.6%	3.0%	4.4%	2.5%	3.6%	3.8%	10.4%
Marsh McLennan	4%	3%	3%	4%	4%	1%	10%
Willis Towers Watson		2%	4%	5%	5%	2%	6%
BRP Group				18%	10%	16%	22%
Ryan Specialty**				14.5%	17.5%	20.4%	22.4%
Public Composite	**3.7%**	**3.5%**	**3.7%**	**4.6%**	**4.9%**	**1.7%**	**8.8%**
Other Notable / Non-Public							
Truist	1.4%	0.6%	1.7%	6.0%	8.8%	4.3%	11.0%
Hub	5.3%	3.1%	4.0%	3.6%	4.5%	2.8%	8.4%
Lockton	**10.3%**	**10.0%**	**6.7%**	**7.7%**	**10.3%**	**15%**	**27%**

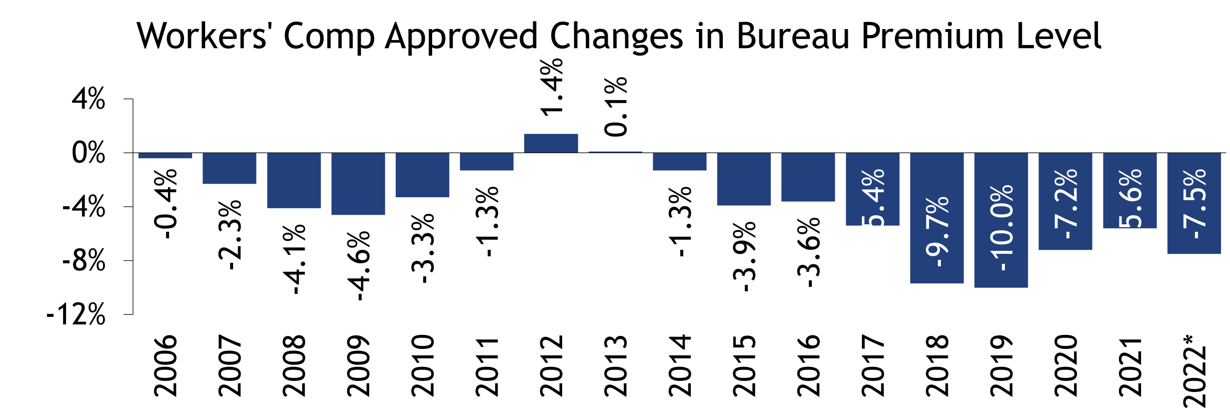
*Source: Co Reports, Hales Analysis; *AJ Gallagher Brokerage only; **Ryan Specialty excluded from the composite*
Lockton Year-End is 4/30. Showing ***total growth*** *if organic not provided*

Workers' Compensation Rates Continue To Decrease (7.5% So Far In 2022) Following Another Year Of Stellar Results

The National Council on Compensation Insurance's (NCCI) latest update on the Workers' Compensation market highlights strong industry underwriting results (again) which continues to support ongoing competition / rate declines. NCCI estimates the favorable underwriting result (13% profit margin) and relatively strong investment result (12pts) yielded another double-digit p/t operating gain ratio of ~25% for the industry, +1.8pt YOY. By comparison, the average operating gain from 2001-2020 was 10.3%. **Despite economic turmoil from COVID-19, nearly 8 years of rate decreases, and a competitive market, W/Comp has held up much better than expected**.

Countrywide workers' comp net premiums were flat for private carriers in 2021 following ~10% decline in 2020, but the line continued to be impacted by decreases in rates (NCCI ratemaking states account for ~50% of U.S. W/C premium but exclude large states i.e. CA, NY, PA, NJ, WI). **Rates are down 7.5% YTD in 2022** (as of 5/6) on top of the -5.6% in 2021, with continued decreases in nearly all states (HI noted to have the only increase).

Exhibit 11



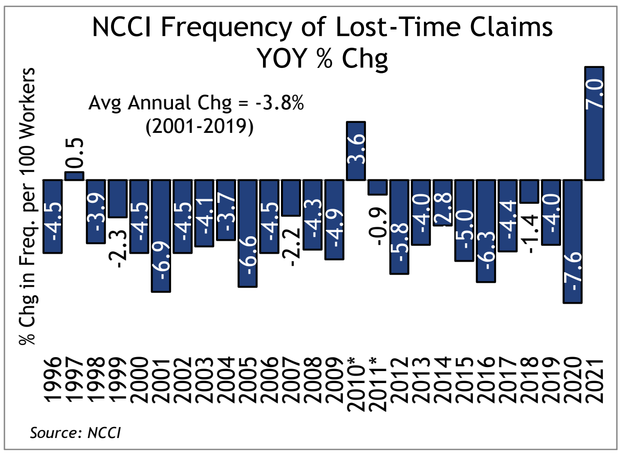
Source: NCCI Approved changes in advisory rates, loss costs, and assigned risk rates as filed in jurisdictions where NCCI provides ratemaking services as of 5/6/22

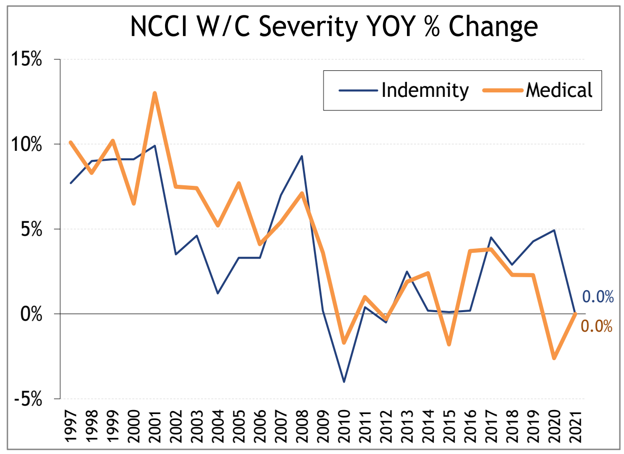
Note, **NCCI's COVID claims estimate is $500M from 60,000 claims in its states since 2020**. The estimate is only 2% of the $26.6B of DPW for these states and is up from 45,000 claims and $260M in May 2021. In 2021 ~55% of the COVID-related claims were indemnity only (vs. 40% in 2020) reflecting claimants that needed to quarantine but didn't not have symptoms / require medical services. Again, the outcome was much better than it could have been / initially feared by the industry.

A Closer Look At The Trends…

To no surprise lost-time claim frequency made a substantial rebound in 2021, increasing 7% for NCCI states after decreasing -4.0% in 2019 and -7.6% in 2020 (average annual change was -3.8% from 2001-2019). The rebound reflects the return-to-work conditions and rollout of vaccinations following the pandemic-related shutdowns and increased "telecommuting." Including COVID, frequency is +2%. On the other hand, severity changes are more difficult to predict, with the NCCI reporting flat medical costs YOY (an important area to watch as medical costs are increasing so far in 2022).

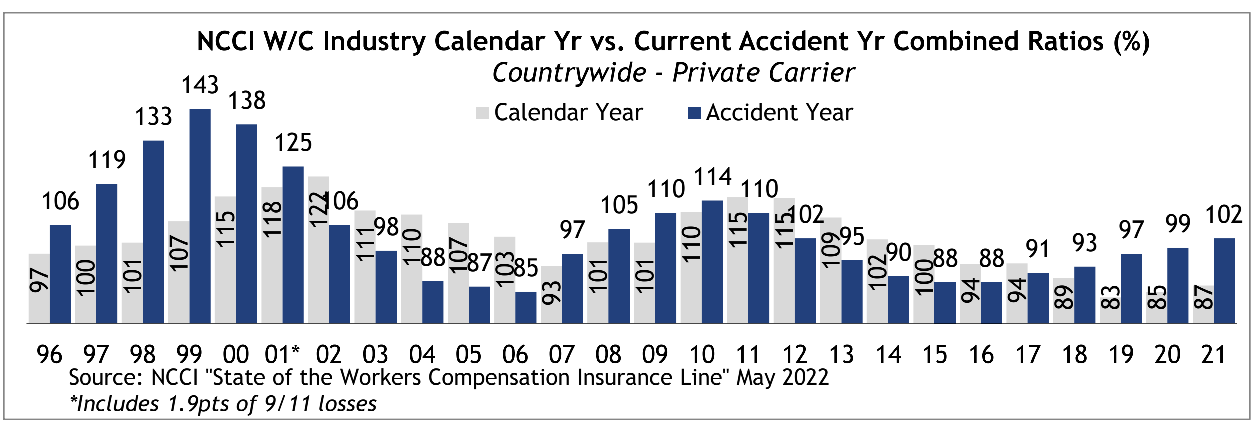
Exhibit 12 & 13





Despite the premium pressure from rate declines, years of frequency decreases and moderate levels of severity have helped the industry produce stellar underwriting results, with combined ratios below 100% for 6 consecutive calendar years. Notably, NCCI's initial Accident Year pick for 2021 is above 100%, however they expect the industry to develop favorably in the future (NCCI ultimate AY pick of 92% for 2021).

Exhibit 14

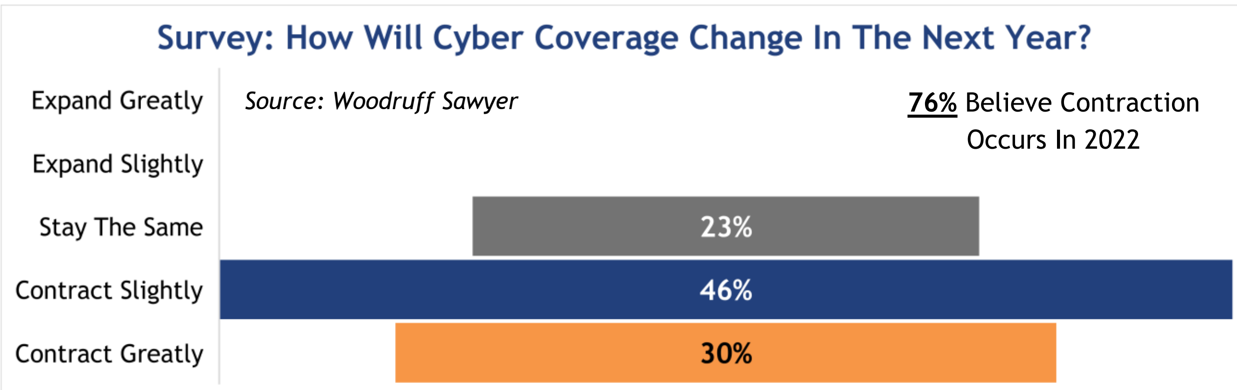


Woodruff Sawyer Sees Rates Moderating, But Carriers Keeping A Close Eye On Potential Problem Areas. Cyber The Clear Exception To Trend.

Woodruff Sawyer (WS), #28 broker in the Hales Top 100 (and a leading Assurex Partner), saw rate increases in most commercial lines decelerate through Q1-22. In its [Commercial Lines Insurance Market Update](), the broker notes "market stabilization is the theme as we close the first quarter." Of course, there's variance by line.

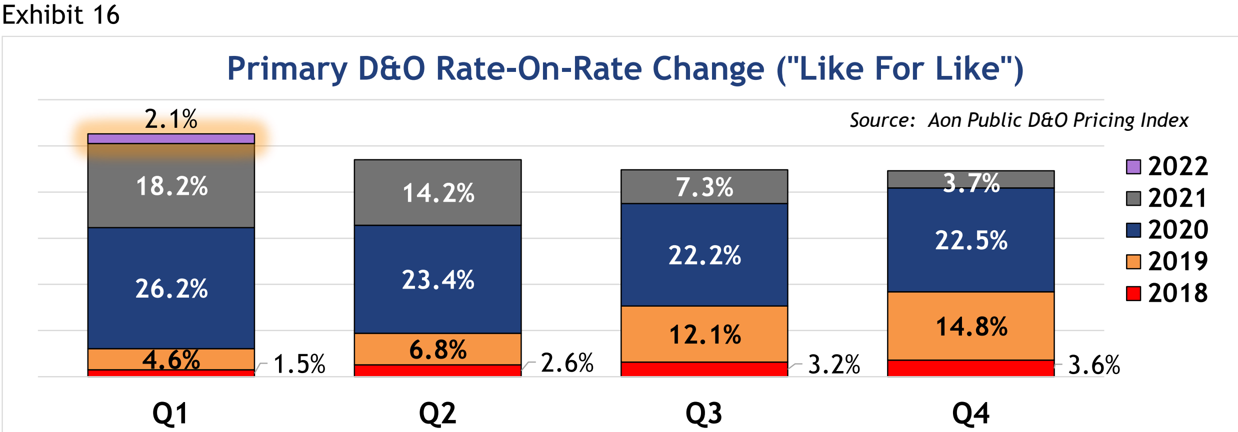
Cyber is the most notable outlier to the trend. After a year of outsized price increases in 2021, premiums continue to increase for clients as carrier cut policy limits and restrict coverage. "We don't expect relief in this market any time soon…Good security controls will not necessarily reduce premiums, but they can mitigate the level of premium increases." Excess rates are accelerating fast, often 85-95% of underlying.

Exhibit 15



D&O was characterized as "flat." After seeing rate increases decelerate in 2021, some clients are seeing decreasing premiums and retentions (mostly firms that have been public for a long time). "We do expect this trend to continue and the number of new entrants to the D&O market ramp up their staffing and quote more business." Upward adjustments are generally still on excess layers, and WS acknowledges (i) securities class action severity remains high and (ii) likelihood of a public co being sued reached a record high of 5% in 2019 but declined to 3.3% in 2021.

Exhibit 16



Property rate increases are decelerating but WS "will be watching as inflation continues to impact the economy. If loss costs rise rapidly, insurers will likely look to increase rates again. For now, insurers are remaining vigilant around property valuations." Focus and scrutiny of credible and reliable valuations persists and is a key factor in the renewal process.

Exhibit 17

Property Account Pricing, By Type

Cat Account	Loss History: Favorable	Loss History: Unfavorable
No	0%-5%	15%+
Yes	2.5%-7.5%	30%+

Source: Woodruff Sawyer

Casualty moderation is largely driven by Workers Comp (as discussed in detail above) but with carriers keeping a close eye on lines that can be most impacted by inflation, such as auto and CMP. Lead Umbrella is challenging due to ongoing increased large claim activity, while high excess is competitive. Clients with large auto fleets, high-hazard products and/or significant premises exposures are seeing the greatest challenges (limited capacity).

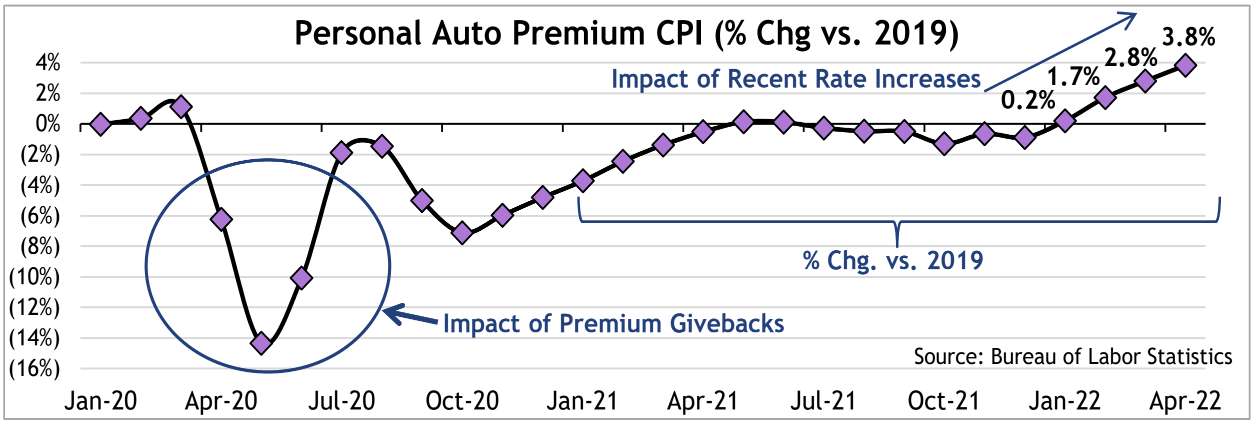
Markel management provided their view on a recent investor call: "we are seeing more competition as the rate of increase has decelerated. So I think some of **the new entrants, both company and MGA, I think they've had some impacts on the margin**. I do think after 3 and in some cases, 4 years of rate increases, people's assessment of rate adequacy changes, and so their appetite changes."

"So this market, the cycle is no different than past cycles. **We are probably past the peak of this cycle, but it is coming off very gradually**… and I think it's some of the things that have been developing, the war, inflation, interest rates, you name it… and so it has been a very gradual, gentle glide on the rates as opposed to maybe something faster than I might have predicted a few quarters ago."

April Headline CPI +8.3%. Auto Premium +4.4% YOY (+3.8% Vs. '19). The Manheim Used Vehicle Index's Mid-May Data Point Reveals Sequential Increase After Easing From February Through April.

The headline CPI number was +8.3% for April (vs. +8.5% in March), while the April **Auto Premium CPI** (proxy for auto insurance rates) was +4.4% YOY vs. +4.2% in March. Compared to 2019, auto premium was up +3.8% vs. +2.8% in March highlighting the recent rate increases taken by the industry.

Exhibit 18



Dowling & Partners' **"Loss Cost Index"** (severity) was 9.1% for April (down from 9.9% in March), with the sequential decrease driven by the slowing increase in used car prices. **Auto Body Work** (+13.0%) and **Medical Care** (+3.2%) continue to increase, both up from their March YOY figures.

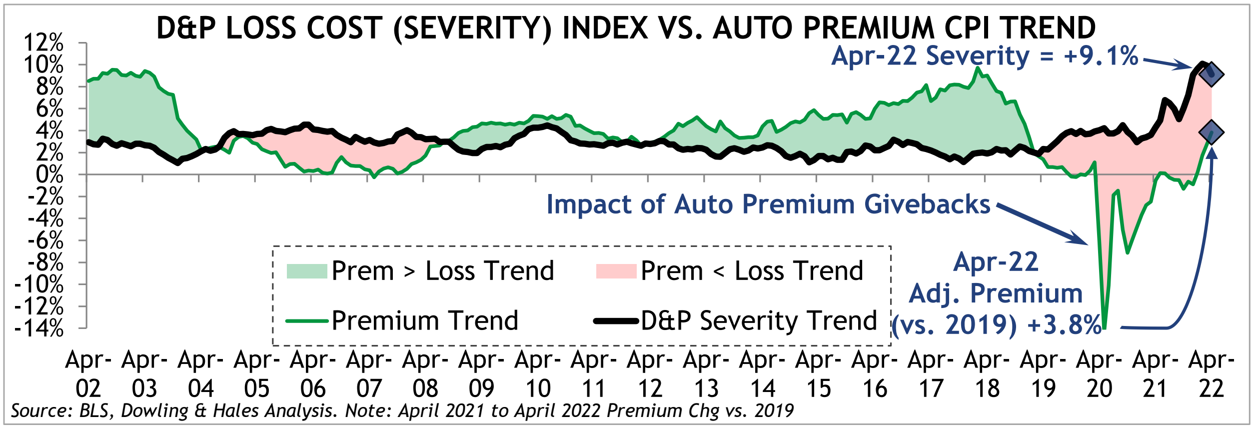
Exhibit 19

D&P Loss Cost Index Weight	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022	2022	2022	2022
CPI - Auto Related - YOY % Chg	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Motor Vehicle Ins. Premium	**6.1%**	**16.9%**	**11.3%**	**1.6%**	**1.0%**	**4.8%**	**6.3%**	**5.7%**	**4.1%**	**4.1%**	**4.3%**	**4.2%**	**4.4%**
Motor Vehicle Ins. Premium vs. 2019	**(0.5%)**	**0.1%**	**0.1%**	**(0.3%)**	**(0.5%)**	**(0.5%)**	**(1.3%)**	**(0.7%)**	**(0.9%)**	**0.2%**	**1.7%**	**2.8%**	**3.8%**
Medical Care (Bodily Injury - 50%)	1.5%	0.9%	0.4%	0.3%	0.4%	0.4%	1.3%	1.7%	2.2%	2.5%	2.4%	2.9%	3.2%
Auto. Body Work (PD - 40%)	3.7%	3.7%	5.1%	5.5%	6.5%	6.0%	6.8%	8.0%	10.6%	10.8%	11.9%	12.4%	13.0%
Used Cars & Trucks (PD - 10%)	21.0%	29.7%	45.2%	41.7%	31.9%	24.4%	26.4%	31.4%	37.3%	40.5%	41.2%	35.3%	22.7%
Weighted Avg. Phys. Dam.	*7.2%*	*8.9%*	*13.1%*	*12.7%*	*11.6%*	*9.7%*	*10.7%*	*12.7%*	*16.0%*	*16.8%*	*17.7%*	*16.9%*	*15.0%*
D&P Loss Cost Index	**4.3%**	**4.9%**	**6.8%**	**6.5%**	**6.0%**	**5.0%**	**6.0%**	**7.2%**	**9.1%**	**9.6%**	**10.1%**	**9.9%**	**9.1%**
Premium-Loss Severity Gap	**1.8%**	**12.0%**	**4.6%**	**(4.9%)**	**(5.0%)**	**(0.3%)**	**0.2%**	**(1.6%)**	**(4.9%)**	**(5.5%)**	**(5.8%)**	**(5.7%)**	**(4.7%)**
Premium-Loss Severity Gap vs. 2019	**(4.8%)**	**(4.8%)**	**(6.7%)**	**(6.8%)**	**(6.5%)**	**(5.6%)**	**(7.3%)**	**(7.9%)**	**(10.0%)**	**(9.4%)**	**(8.4%)**	**(7.1%)**	**(5.3%)**
Other Auto Related													
Motor Vehicle Main. & Repair	3.5%	2.8%	3.1%	4.1%	4.2%	4.0%	5.4%	4.9%	4.8%	4.8%	6.3%	4.9%	5.3%
Motor Vehicle Parts & Equip. ex Tires	1.0%	0.4%	0.7%	2.6%	4.8%	4.7%	8.1%	8.7%	9.4%	10.2%	12.3%	10.5%	12.5%
Prof. Medical Services	3.5%	2.9%	2.6%	2.6%	3.0%	2.8%	2.8%	3.1%	3.3%	2.6%	1.5%	1.7%	1.8%
Hospital & Related Services	2.8%	2.8%	2.7%	3.0%	3.7%	3.3%	4.1%	3.5%	3.3%	3.6%	3.4%	3.4%	3.6%
New Vehicles	2.0%	3.3%	5.3%	6.4%	7.6%	8.7%	9.8%	11.1%	11.8%	12.2%	12.4%	12.5%	13.2%

Source: Bureau of Labor Statistics, Dowling & Hales Analysis

At a 9.1% loss cost index, D&P's **Premium-Loss Severity Gap** (difference between premium and loss costs/ severity) tightened to -4.7% in April vs. -5.7% in March but the difference was more negative vs. 2019 at -5.3%. **If the gap fails to close as auto premium moves up, <u>additional rate will be needed to keep pace with loss trend</u>.**

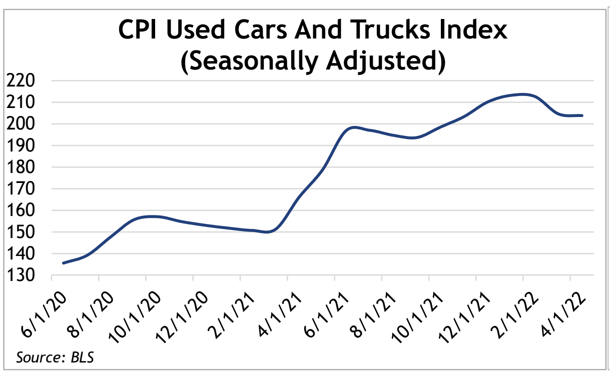
Exhibit 20

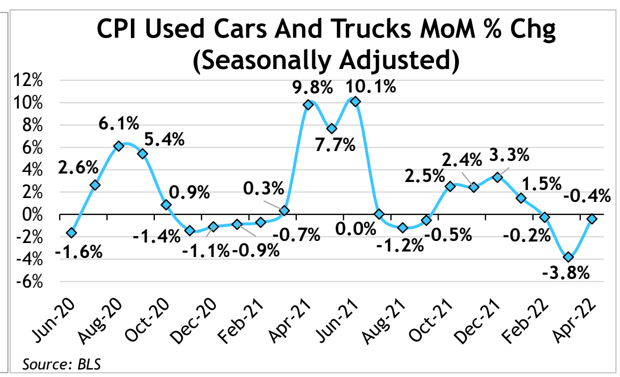


Taking A Closer Look At The Components …

Used car prices remain at elevated YOY figures for April (+22.7%) but eased sequentially once again, down -0.6% month-over-month (vs. -1.8% in March). The seasonally adjusted month-over-month comparison was also down slightly at -0.4% (vs. a larger decrease of -3.8% in March).

Exhibits 21 & 22





For mid-May, **the Manheim Used Vehicle Index increased sequentially up +0.7% vs. April-end.** Note, this disrupts three straight sequential decreases seen from Feb-Apr (-2.1%/-3.3%/-1.0%, respectively).

The index was up +9.7% YOY (vs. +14.0% in April), although this was compared to a higher base in May-21 which increased +48.2% YOY. Note, the Used Cars & Trucks CPI lags the Manheim index, suggesting a potential short-lived easing in used car prices.

Exhibit 23

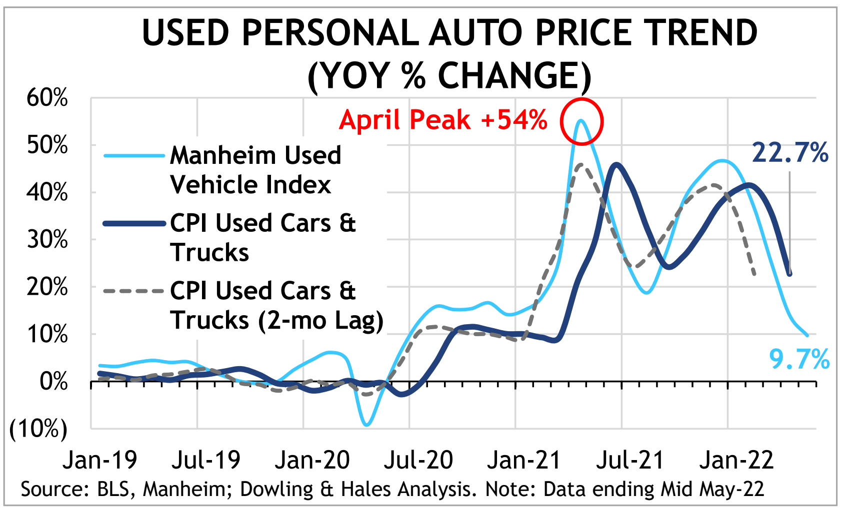
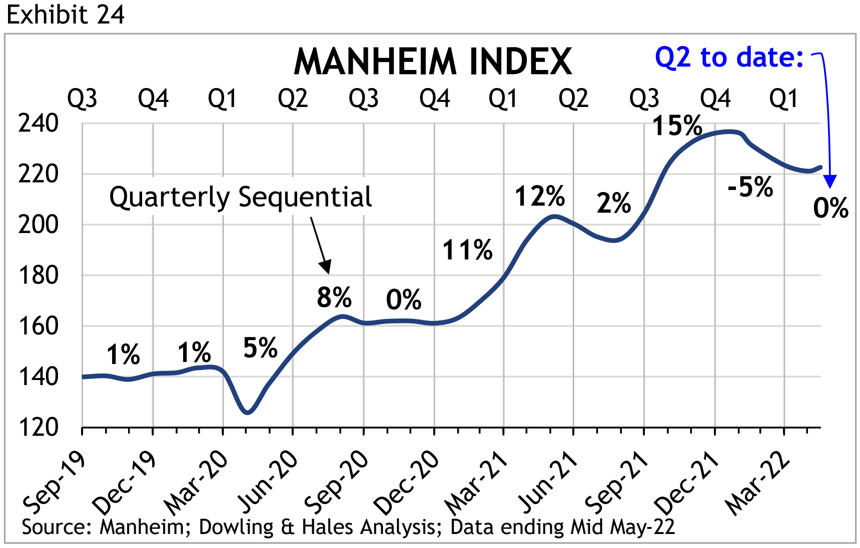


Exhibit 24



SelectQuote Issues Going Concern Warning Over Ability To Maintain Debt Covenants. Another Struggling Aggregator Distribution Business.

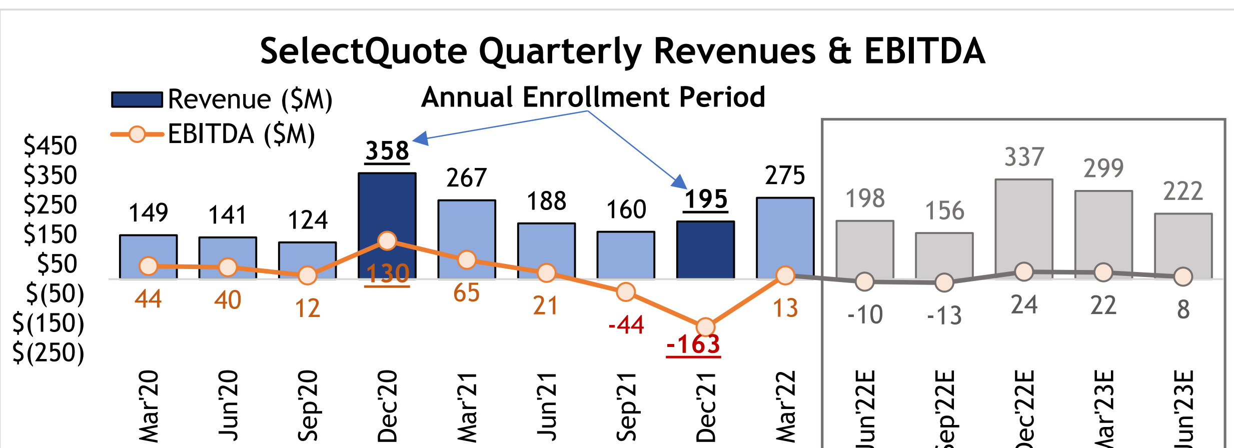
SelectQuote, a comparative rater that primarily distributes insurance products over the telephone (mostly Medicare Advantage), issued a going concern warning as it has "substantial doubts" over its ability to maintain a required asset coverage ratio covenant over the next 12 months (ratio undisclosed). Failure to uphold the covenant would allow the lenders to deem SelectQuote in default. The company is in talks with the lenders as it hopes to waive/ modify the covenant.

"…our financial projections indicate that, based on our current business plan, we will not maintain the required asset coverage ratio within one year [which] would permit our lenders to declare us in default. In the event of a default, our lenders could accelerate all amounts owing under the Senior Secured Credit Facility. We do not currently have sufficient liquidity to repay such indebtedness … As a result, there is substantial doubt about the Company's ability to continue as a going concern."
- SelectQuote 10-Q

For background, SelectQuote has recently struggled to meet its financial targets. The firm was unprofitable in calendar Q4 2021, a significant let-down given that Q4 is when Medicare distributors deliver most of their revenues/ earnings due to the annual enrollment period (AEP) work.

This poor performance was attributed to a number of macro and company specific challenges, including shortage of agents, high parity among Medicare Advantage plan features (following the introduction of expansive plans and wellness programs by carriers leading to higher shopping in prior years), higher intra-year lapse rates and non-renewals. Note, some of these 2022 AEP challenges were broadly alluded to by other market participants.

Exhibit 25



Source: FactSet, Company reports

SelectQuote also has limited auto and home exposure ($31M at 3% of total revenues for FY'21 ended 6/30), where it has also been reporting headwinds and shrinking as a result.

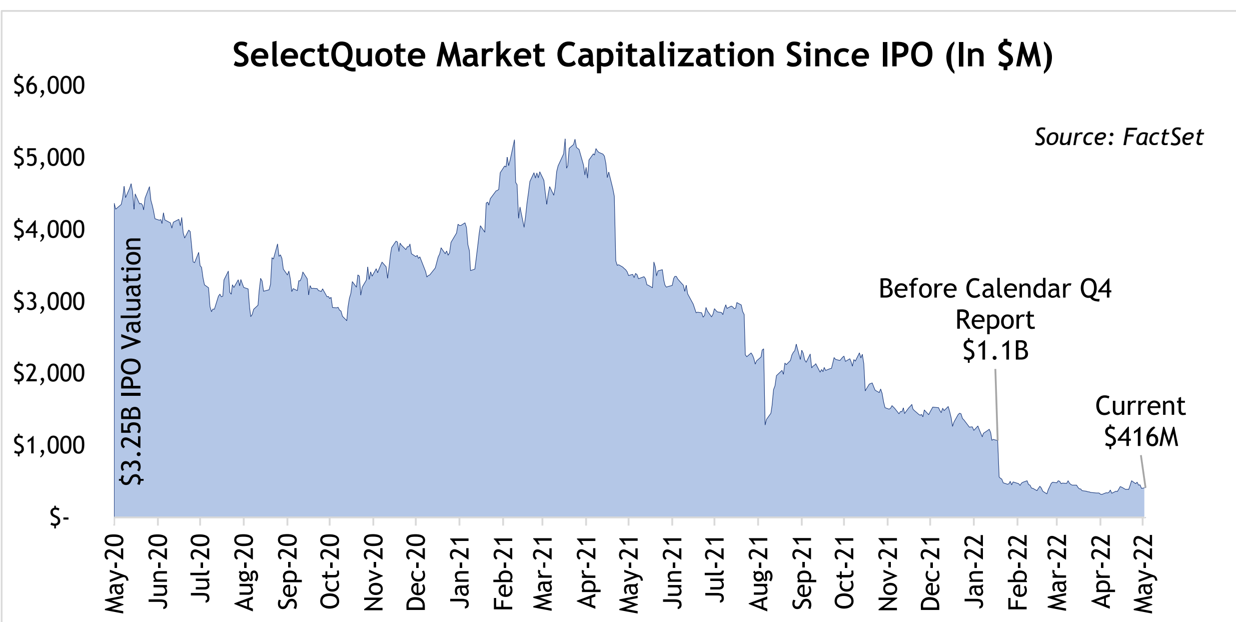
SelectQuote's stock is down 73% year to date and down 91% since its post IPO close on May 21, 2020. The firm's current market capitalization of ~$400M is 1/8 of the IPO valuation and 1/13 of the peak size logged in April 2021. As of 3/31, SelectQuote had >$700M in debt on its balance sheet.

It's yet another example of a struggling aggregator distribution model that puts high emphasis on the transaction rather than the more traditional client-agent relationship. Since there is no relationship underlying the business, it tends to have lower retention (and presumably higher loss ratios since carriers get adversely selected against in the comparative rating process). Hence, in bad times this business is offloaded first since doing so is less consequential for the long-term economics of carrier books of business and, conversely, in good times it tends to thrive. The high volatility complicates business planning for comparative raters.

It is no coincidence that EverQuote, one of the leading personal lines comparative raters, recently announced a pivot to an agent-driven model.

Both **QuinStreet** and **EverQuote**, the two largest public personal lines comparative raters, reduced their full year 2022 guidance indicating that the business remains on a down spiral as personal lines carriers continued to curtail marketing budgets. Concurrently, Progressive, a leading buyer of referrals from comparative raters, reported a record low expense ratio for the month of April.

Exhibit 26



Hales Hits:

- #9 **Hub International** posted Q1 organic growth of 8%, in line with the public brokers, and ahead of 7.2% YOY (was 8.4% organic for full year 2021). U.S. based growth was the strongest at +9%, while Canada growth was 5.2% due to a difficult YOY comp (+20% in Q1:21). Hub reported a Q1 margin of 37.2%, slightly lower YOY but comes after 190bps of expansion in full-year 2021.

- Recently public wholesale broker **Ryan Specialty** reported Q1 organic growth of 20.1% attributing the strong growth to new client wins, expanded business from existing clients, an overall expansion of the E&S market + premium rate increases. Founder and CEO Pat Ryan remarked "We are pleased to see that the E&S marketplace remains robust. Market changes were perceived on the periphery, which we flagged on our prior earnings call, have not yet developed. Broadly speaking, rates remain resilient in the majority of our lines of business. Where rate increases have moderated they've been more than offset by the continued expansion of the E&S market."

- **Hagerty**, the classic and collector car insurance carrier and MGA, reported Q1 results with 30% revenue growth and negative $6M EBITDA vs positive $1M in Q1:21 as management stressed elevated investments in digital ad costs and expenses related to its partnership with State Farm, which it expects to launch with no further delays. Recall, last quarter the company announced a delay of the partnership which led to a reduction of the full year guidance.

- **Elon Musk is not a fan of insurance agents.** Speaking at a conference in Miami he doubled down on the car maker's interest in expanding its insurance offering for Tesla vehicle owners stressing the industry's inefficiency. "The car insurance industry is incredibly inefficient … You've got so many middle entities, from insurance agents all the way to the final reinsurer, there's like a half-dozen companies each taking a cut." Tesla insurance is currently available in 8 states (CA, TX, IL, AZ, OH, CO, OR, VA).

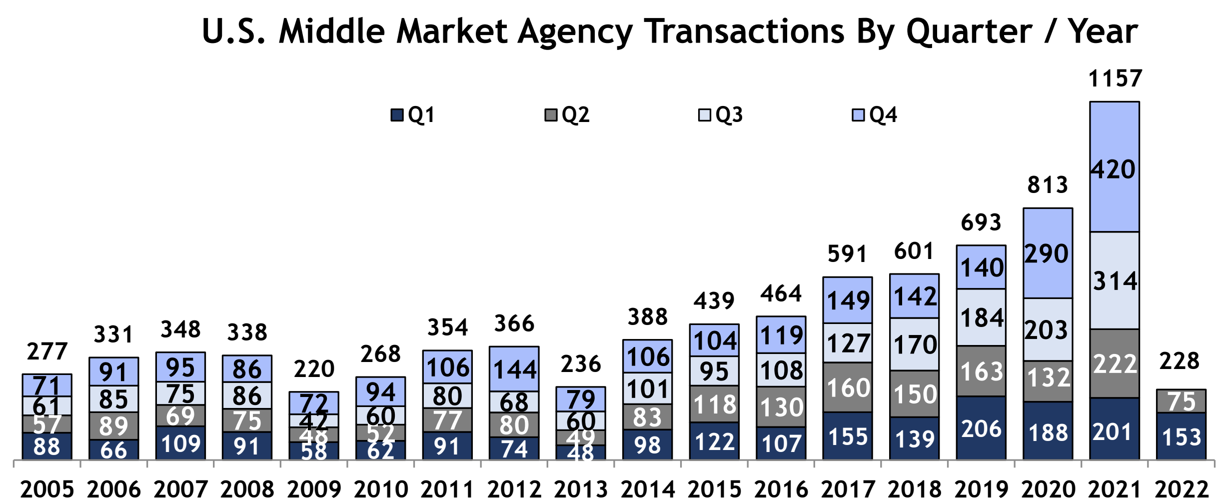
- So far in Q2, the **cat bond market has seen $3.5B** of cat bond principal issued or in process of issuance, below the $6.3B of principal issued in Q2:21 (and compares to 5-year average of $4.4B). While there was robust deal flow at this time last year, the market appetite appears to have slowed down somewhat this year. It remains unclear if its broadly reduced appetite from investors and/or a more specific loss of interest for cat bonds heavily exposed to SE/FL wind.

- First Street Foundation published a report analyzing wildfire risk and the potential impact climate change may have in the future. Of the >145M locations analyzed for potential risk / exposure, nearly ~half (71.8M) were susceptible to wildfire damage today (note severity varies). Over the next 30 years, the number of at-risk properties will increase 11% to 79.8M, and to no surprise, 5 of the top 10 most susceptible counties were located in California.

U.S. Deal Diary – Q2 Updates:

The 8 deals over the past 2 weeks put the total Q2 count of deals at 75 (vs. 222 total in Q2 2021). So far this year, the deal tally of 234 is notably lower than 286 at this time last year.

Exhibit 27 & 28



Source: The Hales Report via S&P Capital IQ, Factset, other public sources

2022 Most Active Acquiring Brokers - Quarterly / Monthly (Domestic Deals)

	2021	Jan-22	Feb-22	Mar-22	Apr-22	May-22	2022
National Brokers							
Acrisure, LLC	129	3	5	6	6	5	25
PCF Insurance Services	89	8	4	15	5	5	37
High Street Insurance Partners	79	-	9	5	-	2	16
AssuredPartners, Inc.	53	-	-	-	1	1	2
World Insurance Associates	50	-	1	2	1	-	4
Alera Group	49	2	-	-	-	2	4
Broadstreet Partners	45	1	1	3	3	5	13
Hub International	44	1	1	8	5	5	20
Integrity Marketing Group	38	1	2	2	1	1	7
Liberty Company Ins. Brokers	36	-	1	2	10	-	13
Relation Insurance Services	33	-	-	-	-	-	-
Patriot Growth	32	-	-	-	-	-	-
Hilb Group, LLC	25	1	-	1	1	-	3
RSC Insurance Brokerage, Inc.	29	2	2	-	-	1	5
Arthur J. Gallagher & Co.	22	1	-	2	3	2	8
Keystone Agency Partners	22	-	1	2	2	-	5
Brown & Brown	18	-	2	-	1	1	4
BRP Group	16	-	-	1	-	-	1
Inszone Insurance Services	16	3	3	2	-	-	8
Alliant Insurance Serivces	15	-	-	-	-	-	-
Heffernan Insurance Brokers	12	-	-	-	-	-	-
NFP Corp.	12	-	-	1	-	-	1
USI Insurance Services	10	1	-	-	1	1	3
Higginbotham	8	5	-	1	1	-	7
Marsh McLennan Companies	6	-	-	1	-	-	1
Sub-Total	**888**	**29**	**32**	**54**	**41**	**31**	**187**
Other	*269*	*20*	*11*	*9*	*6*	*1*	*47*
Total Broker Deals	**1157**	**49**	**43**	**63**	**47**	**32**	**234**

Source: The Hales Report via S&P Capital IQ, Factset, other public sources.

Exhibit 29

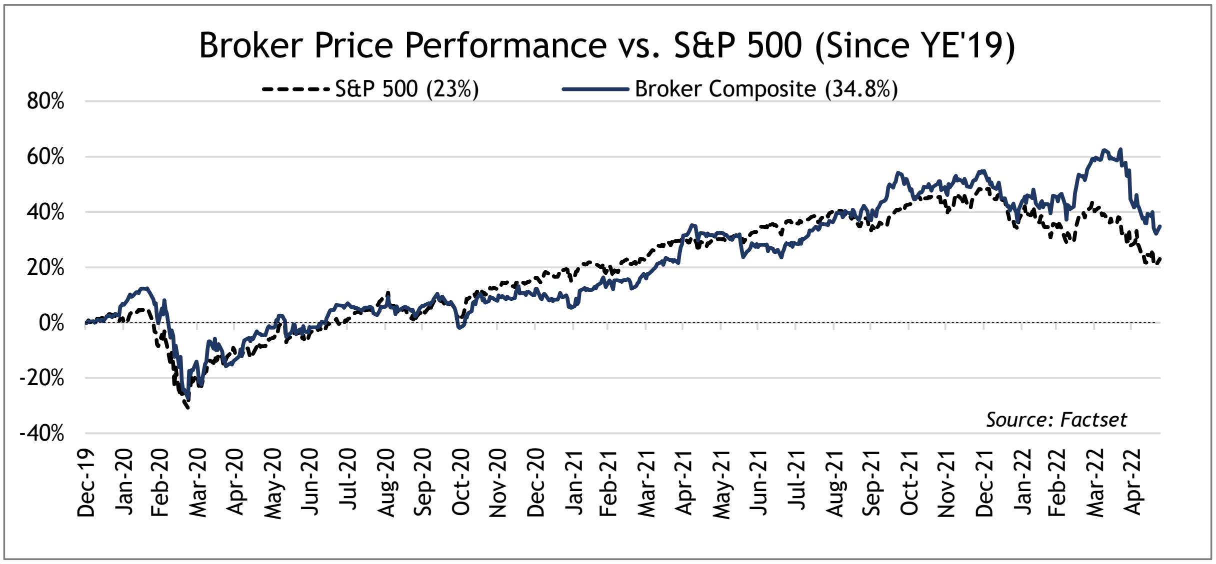
2022 U.S. Middle Market Brokerage M&As (May)

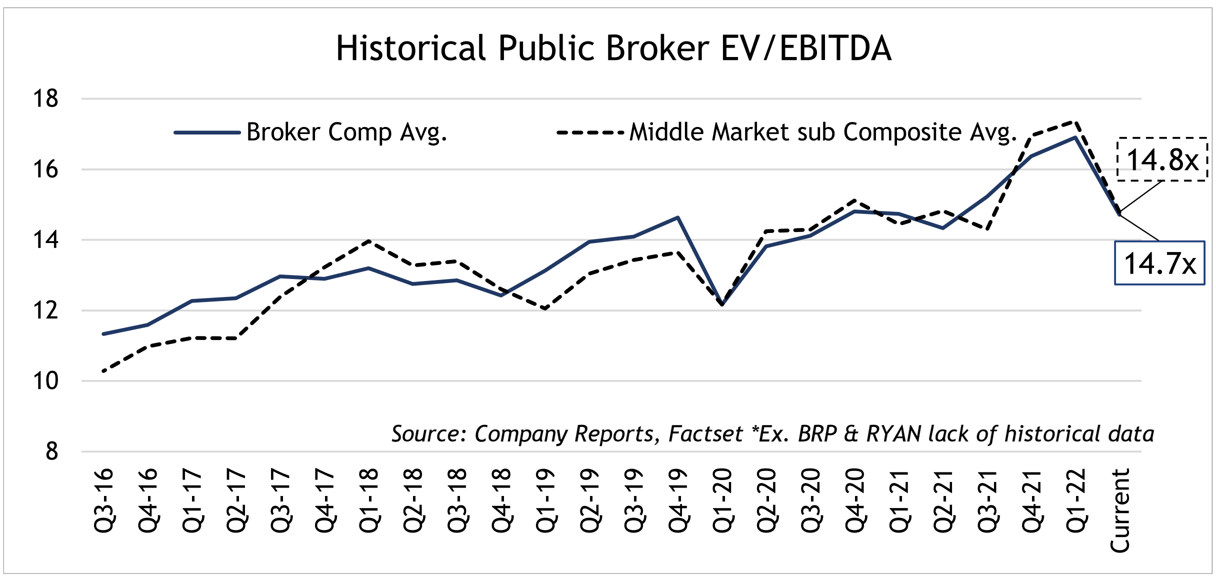
Date	Acquirer	Acquiree	Acquiree State
1-May	**PCF Insurance Services**	*Undisclosed Agency*	*N/A*
1-May	**PCF Insurance Services**	*Undisclosed Agency*	*N/A*
1-May	**PCF Insurance Services**	*Undisclosed Agency*	*N/A*
1-May	**Alera Group, Inc.**	*TMS Holdings Georgia, Inc*	*GA*
1-May	**Alera Group, Inc.**	*West Michigan Insurance, Inc.*	*MI*
1-May	**BroadStreet Partners, Inc.**	*Book of business*	*NJ*
1-May	**BroadStreet Partners, Inc.**	*Book of business*	*NV*
1-May	**BroadStreet Partners, Inc.**	*Certain insurance assets*	*IL*
1-May	**BroadStreet Partners, Inc.**	*Certain insurance assets*	*IA*
1-May	**BroadStreet Partners, Inc.**	*Certain insurance assets*	*KS*
1-May	**High Street Insurance Partners, Inc.**	*The Rice Agency, LLC*	*MD*
1-May	**High Street Insurance Partners, Inc.**	*Carolina Insurance Group*	*NC*
1-May	**PCF Insurance Services**	*Undisclosed Agency*	*N/A*
1-May	**PCF Insurance Services**	*Undisclosed Agency*	*N/A*
2-May	**Arthur J. Gallagher & Co.**	*Lighthouse Insurance Group, LLC*	*OH*
3-May	**Hub International**	*Hanson Insurance Group*	*OR*
4-May	**Hub International**	*Williford Insurance Group, Inc.*	*NC*
4-May	**Hub International**	*Assets of JonesBirdsong LLP*	*MN*
4-May	**Integrity Marketing Group, LLC**	*Ash Brokerage LLC*	*IN*
5-May	**Hub International**	*Great North Insurance Services, Inc.*	*ND*
6-May	**Hub International**	*Assets of Alta Actuaries & Consultants, LLC*	*IL*
9-May	**AssuredPartners, Inc.**	*Midwest Group Benefits Inc.*	*IA*
10-May	**The Carlyle Group Inc.**	*NSM Insurance Group, Inc.*	*PA*
11-May	**RSC Insurance Brokerage, Inc.**	*The Insurance Center of Central Florida, Inc.*	*FL*
16-May	**Arthur J. Gallagher & Co.**	*Hruska Insurancenter, Inc.*	*IL*
16-May	**Brown & Brown, Inc.**	*Claims Technoligies Inc.*	*IA*
16-May	**USI Insurance Services, LLC**	*Ames-Grenz Insurance Services, Inc.*	*CA*

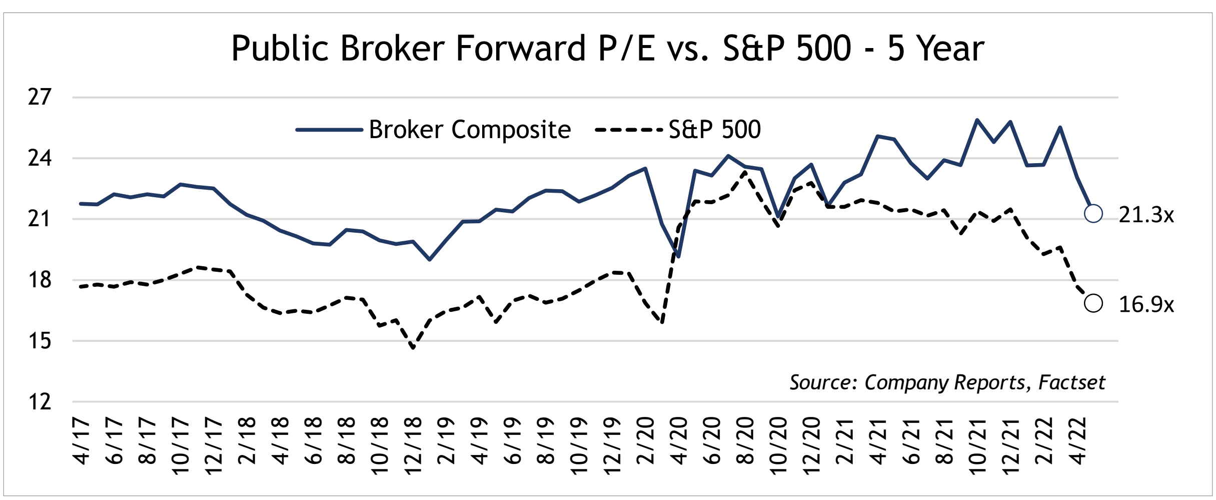
Source: S&P Capital IQ, Factset, and other public sources; Note Excl. Acrisure deals.

Public Broker Valuations:

Exhibits 30, 31 & 32







Important Disclosures

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