

Insurance Brokers

Recent Meeting With Private Broker

We recently met with a larger private broker and discussed industry trends. Here are the highlights:

Brown & Brown weakness appears to be an anomaly. Brown & Brown's weak organic number could be a function of losing market share. The broker we spoke with has a book of business that is similar to Brown & Brown. Its organic growth rate is improving on an annual and sequential basis, but is still modestly negative. In particular, exposures are relatively flat and pricing is less negative.

Pricing—better, but still negative. In most lines, the broker continues to see modest pressure on pricing. There is upward price pressure on property-oriented habitation risks and some regional pockets of workers' compensation—rates are going up in California and Florida, but not in the rest of the country.

Acquisitions. Deal valuations are moving toward 7 times EBITDA. Also, some firms are getting more aggressive on interpretation of EBITDA, which effectively increases the valuations. Increased competition for deals is coming from both the public brokers and some of the larger private brokers.

Employee benefits. The organic tailwind that benefit brokers got from higher medical costs is likely contracting or going away. Brokers typically got an additional 2% to 3% growth in employee benefit commissions related to healthcare inflation. Going forward, carriers will be using a variety of mechanisms, including increased disclosures that will effectively get rid of the inflation rider.

Contingents. Unlike Brown & Brown, this broker is seeing relatively flat levels of contingents. The broker's ability to deliver increasing premium volume to carriers is translating into stable contingent levels. Next year remains a question mark.

Financial Services¹ Insurance Brokers

July 25, 2011

Arthur J. Gallagher & Co.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: **AJG (NYSE)**
 Price: **\$27.55 (52-Wk.: \$24-\$32)**

Aon Corporation

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: **AON (NYSE)**
 Price: **\$50.4 (52-Wk.: \$36-\$55)**

Brown & Brown, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: **BRO (NYSE)**
 Price: **\$22.02 (52-Wk.: \$19-\$27)**

Marsh & McLennan Companies, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: **MMC (NYSE)**
 Price: **\$30.09 (52-Wk.: \$23-\$32)**

Willis Group Holdings Public Limited Company

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: **WSH (NYSE)**
 Price: **\$39.62 (52-Wk.: \$29-\$42)**

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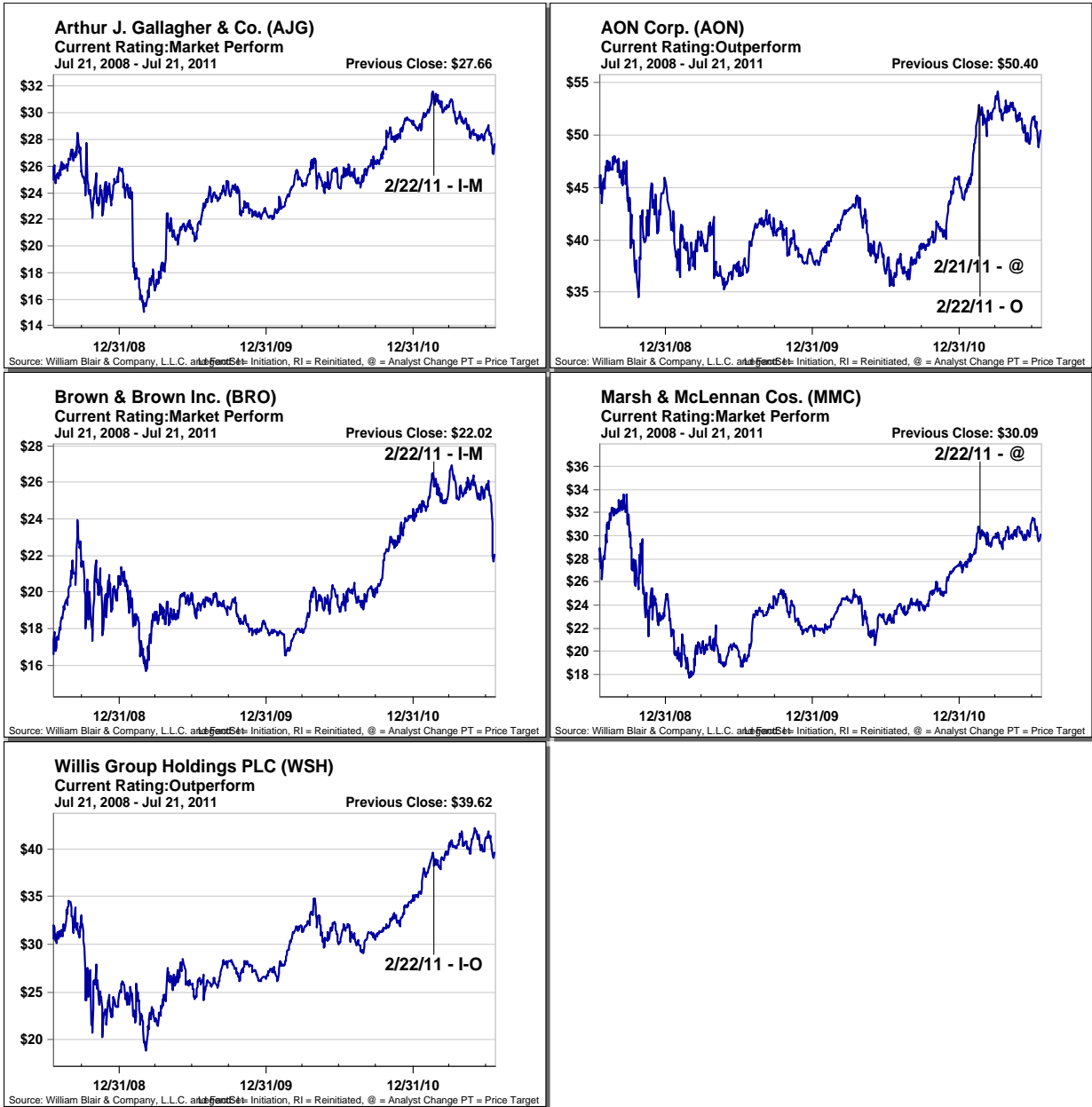
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Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	61	Outperform (Buy)	8
Market Perform (Hold)	29	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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