William Blair

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Industry Report

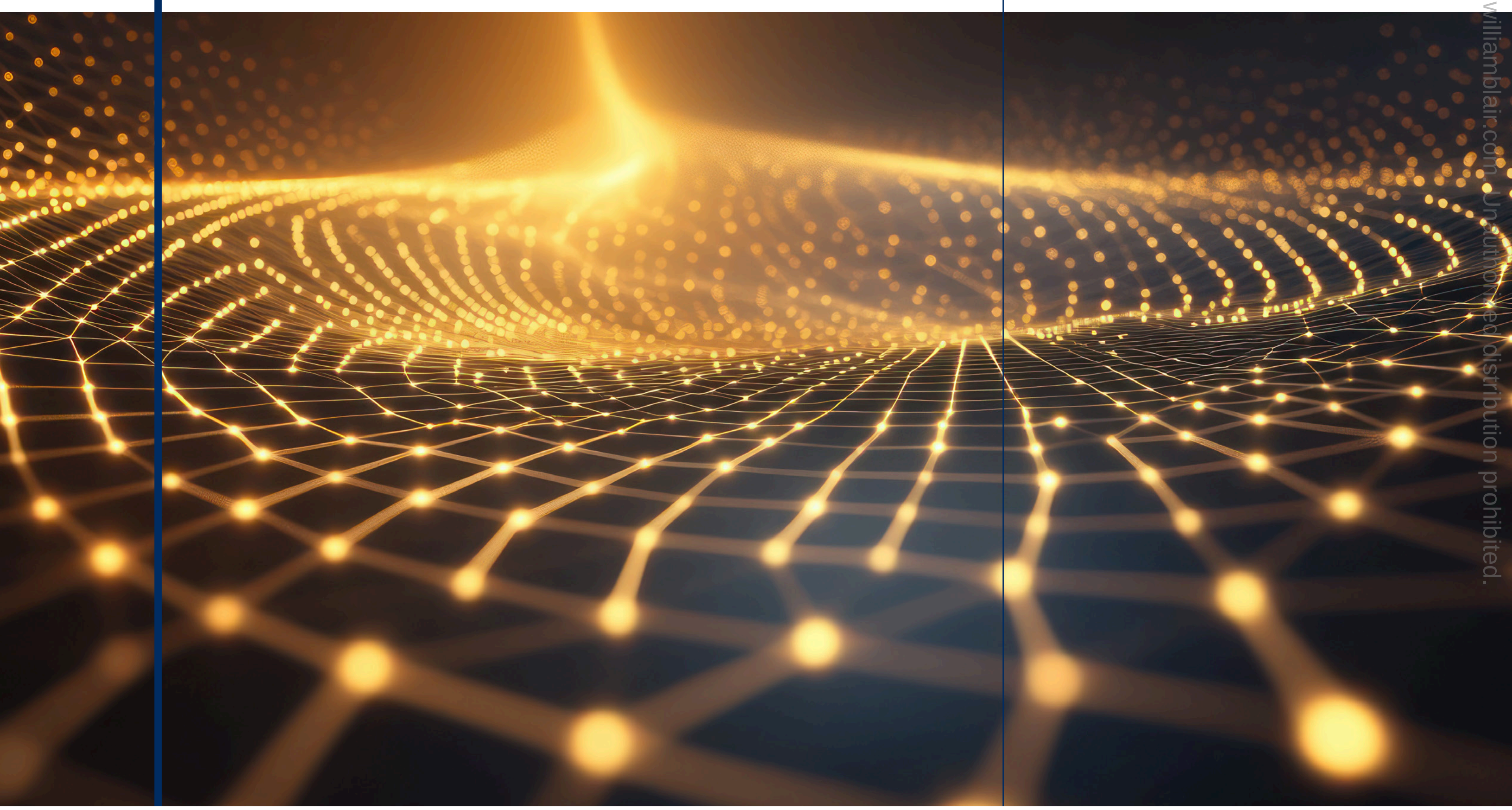
Adam Klauber, CFA +1 312 364 8232
aklauber@williamblair.com

Sam Hirsch +1 312 801 7718
shirsch@williamblair.com

Jonathan Bass +1 312 364 5374
jbass@williamblair.com

Insurance Distribution

Expanding Opportunities and Evolving Business Models



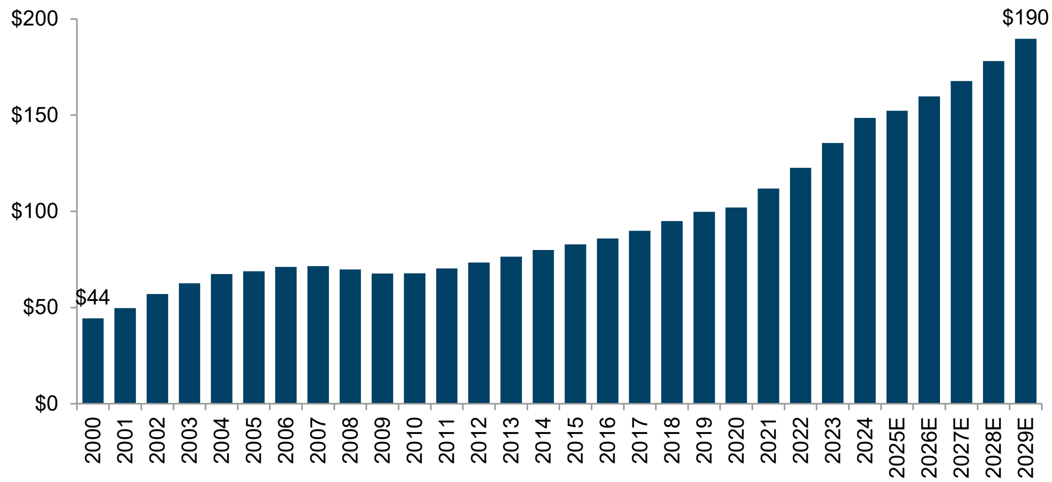
Contents

Introduction

Big and Expanding Market

This report highlights a robust long-term secular growth opportunity for the insurance distribution industry. Insurance is a safety net, and the rising need for protection should expand demand for insurance distribution. Consequently, the revenue opportunity for insurance brokers, agents, and other distribution firms should grow faster than historical levels of 2% to 4% over the next several years. The combination of rising inflationary factors and need for solutions plus an array of increasingly complex risks will likely drive the market growth rate to the mid- to high single digits. Insurance brokers have a track record of delivering above-average returns to investors. Our analysis indicates a similar or enhanced potential over the next five-plus years.

Exhibit 1
Forecast of Total Available Market for P&C Insurance Distribution ($ in Billions)



Sources: S&P Capital IQ Plus and William Blair Equity Research

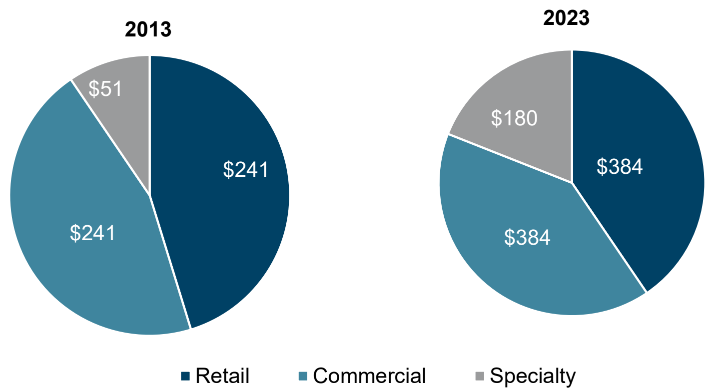
The macro environment for insurance is becoming increasingly volatile, raising long-term secular demand for insurance distribution services. The total available market for insurance distribution revenue is forecast to grow roughly 36% from 2024 to 2029. This compares to an increase of 28% in the last five years. The key inflationary factors of rising weather volatility and escalating litigation should at a minimum result in higher growth in property-and-casualty (P&C) insurance premiums. Commercial and personal insurance clients, correspondingly, have a greater need for assistance/capabilities related to risk mitigation, policy structuring, and management of insurance capacity. Insurance brokers and agents are well positioned to respond to this increasingly dynamic environment.

Proliferation of Distribution Models

The commercial broker consolidation framework has been highly successful and long regarded as the standard practice. Most of the top 20 brokers and numerous other competitors have expanded through small to midsize acquisitions. On average, over 300 broker deals occur on an annual basis. The roll-up strategy has been effective due to recurring revenue, strong cash flow, and low infrastructure inherent within the profile of acquired brokers. The industry, however, is undergoing a significant evolution in the type, variety, and orientation of distribution business models. In addition to rising P&C volatility and inflation, the dynamics are being driven by decaying legacy distribution franchises that are inefficient, heavily fragmented, and underinvested, and have challenging producer demographics. Importantly, the need for flexibility, enhanced use of data/technology, and more customer-oriented strategies are prompting new cohorts of insurance distributors to increase share over the long term.

Our analysis breaks down these new models into the following categories.

Exhibit 2
TAM Breakdown by Distribution Sector
(Gross Written Premium in Billions)



Sources: MarshBerry, and IIABA

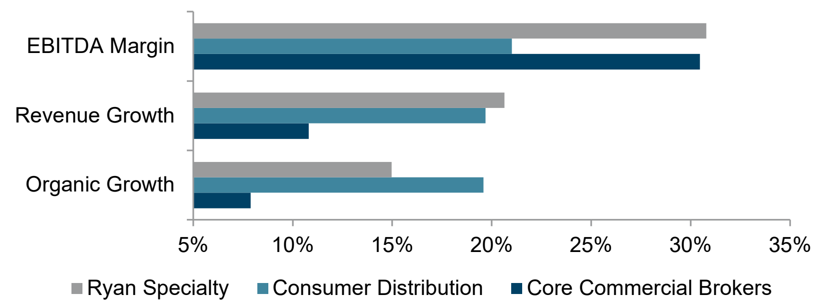
The rise of consumer distribution (TWFG, GSHD, BWIN, ERIE, GOCO, EHTH)
This emerging sector should be the highest growth area in the next 5 to 10 years. Inflationary pressures, structural changes to legacy insurance markets, and rising need for consumer assistance translate into a significant opportunity for up-and-coming competitors. In addition to favorable market conditions, these developing consumer distribution companies are taking share from large legacy distribution competitors. The loss of share by captive distribution force (State Farm, Farmers, etc.) should provide the opportunity for tens of billions of premiums to shift over the next five years. This sector can be segmented into retail aggregators, reciprocal exchanges, and vertically integrated distributors. The group has potential to compound the top line (mainly organic) in the 15% to 25% range over five years and could retain higher earnings growth as the businesses scale.

Specialty brokers institutionalizing (RYAN)
The specialty bucket, which consists of wholesalers and managing general agents/underwriters (MGAs/MGUs), should be another favorable growth area over the long term. This distribution segment plays a key role in the insurance industry's role of being the economy's "safety net." Property-and-casualty insurance is becoming increasingly volatile due to weather variation, rising influence of technology, and widening specter of litigation. Brokers have effectively outsourced in-depth value-added risk management skills to wholesalers and MGAs, which has put them in a pivotal position. Specialty brokers' five-year revenue growth outlook is in the low to midteens, as related markets expand rapidly and share shifts toward their domains of expertise. Ryan Specialty Holdings is the only public company, but there are handful of rising private competitors in this emerging sector (see below).

Scaling and leveraging the commercial broker (AON, AJG, MMC)

Despite an impressive track record, brokers have succeeded themselves. The sector ranks low on innovation, is a slow technology adapter, and is historically undermanaged. This is mainly due to the consolidation orientation and resulting fragmented nature of most brokers. This paradigm, however, is shifting. Several larger and forward-thinking brokers are instituting centralization strategies with a focus on leveraging scale. Despite being relatively mature, this shift should allow the forward-oriented brokers to maintain EPS growth rates in the low double digits.

Exhibit 3
Distribution Sector KPI Comparison
Three-Year Average (2022-2024)



* Core brokers includes AJG, AON, BRO, MMC, WTW
* Consumer distribution includes GSHD, ERIE, TWFG
Sources: FactSet

Valuing Insurance Distributors—Robust Compounding Suggest Bright Future

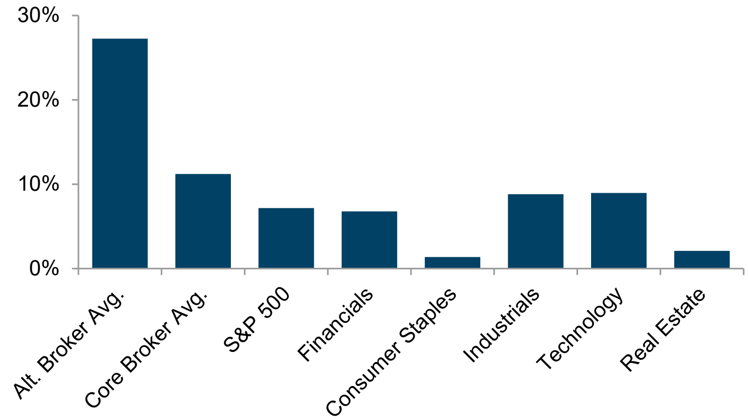
Our discounted cash flow analysis highlights that brokers should deliver impressive returns to investors for years to come (see detailed forecasts on page 28). This report lays out several factors that suggest strong potential for compounding at materially above-market averages. Key factors include increasing need for insurance as a safety net, higher-than-average inflationary factors related to weather volatility/escalating litigation, the potential for substantial efficiency gains related to rising scale, and better application of technology. The combination suggests that the brokers at scale can compound free cash flow at 10% to 15% for the next 5 or potentially 10 years. This is impressive for an industry historically tied to GDP growth. Our DCF highlights that this type of compounding is not factored into the current stock prices. On average, our mid- to high DCF scenarios suggest the stocks are between 25% and 40% undervalued.

Exhibit 4
Insurance Brokers and Distributors
DCF Sensitivity Analysis

				EV/EBITDA Exit Multiple		Implied Price		Implied Upside	
Company	Ticker	Price	Market Cap ($M)	Middle	Upper	Middle	Upper	Middle	Upper
Core Brokers									
Arthur J. Gallagher	AJG	$318	$81,371	18x	19x	$421	$465	32%	46%
Aon plc	AON	$353	$76,169	18x	19x	$435	$491	23%	39%
Brown & Brown	BRO	$110	$35,712	18x	19x	$104	$119	-5%	9%
Marsh McLennan	MMC	$217	$106,907	18x	19x	$242	$274	12%	26%
WTW	WTW	$305	$30,191	16x	17x	$423	$476	39%	56%
TWFG, Inc.	TWFG	$35	$1,962	29x	30x	$49	$54	40%	53%
Mean				**19x**	**20x**			**24%**	**38%**

Sources: FactSet, company reports, and William Blair Equity Research

Exhibit 5
Insurance Brokers
EPS Growth vs. S&P 500 Verticals (2023-2025E Avg.)

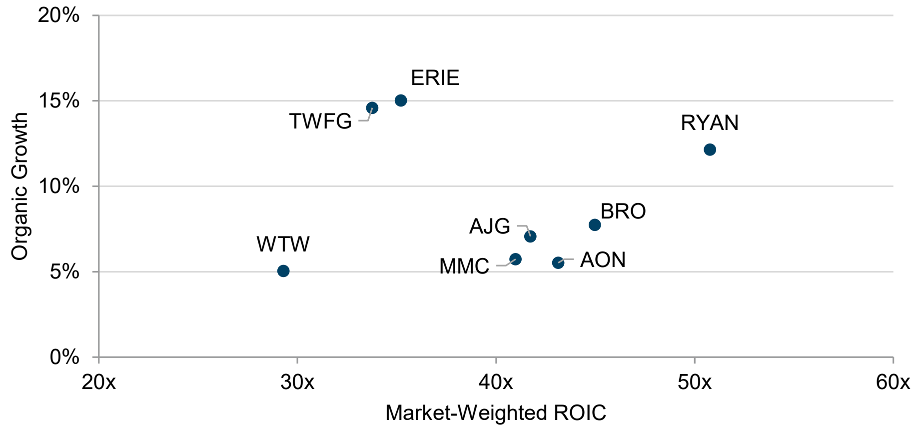


*Core brokers include AON, MMC, WTW, AJG, & BRO
*Alternative brokers include RYAN & ERIE
Sources: FactSet and William Blair Equity Research

Investors have a growing range of distribution-related investment options. The number of publicly traded insurance brokers and distributors has almost doubled in the past few years, and this trend will likely continue. The emergence of these "alternative brokers," such as Baldwin Insurance, Erie Indemnity, Goosehead Insurance, TWFG, and Ryan Specialty Holdings, has created challenges in valuing and benchmarking the sector. The group has become more heterogenous in business maturity and scale, end-market focus, growth and operating strategy, and accounting practices. As a result, the traditional means of benchmarking competitors within the distributor group through multiples such as cash P/E and EV/EBITDA, while still valid, have become more prone to distortions. This is particularly true for the alternative brokers, which trade at sizable valuation premiums to the core brokers using traditional multiples.

Given the differences among companies in the sector, using traditional measures such as cash P/E for comparing and benchmarking valuation is becoming more challenging. As a result, we suggest investors use a weighted free cash flow multiple, such as market-weighted return on invested capital (MWROIC). We calculate MWROIC as the sum of 1) enterprise value and 2) goodwill and intangible assets divided by 3) free cash flow less stock-based compensation. This benchmark encapsulates brokers' ability to efficiently grow and compound free cash. While not a perfect correlation, the exhibit below highlights that broker valuations using the weighted free cash method are aligning well along organic growth, the most important KPI.

Exhibit 6
2024/2025 Brokers Organic Growth vs. 2025 Market-Weighted ROIC



Sources: FactSet, company reports, and William Blair Equity Research

Top Picks

Consumer Distribution

Retail aggregator (TWFG, BWIN)
TWFG is the vanguard of a competitive set bringing modern infrastructure to personal lines agents (auto and home). The technology, products, and services serve buyers of auto and home insurance and grab market share from legacy and fragmented competitors. We believe these dynamics should produce 20% growth and 20% margin over the long term. Baldwin with an emerging retail franchise is also a compelling growth story. Baldwin's differentiated personal lines platform should enable double-digit organic growth over the long term, in our view. Given this combined with the prospect of inflecting free cash flow and more consistent margin improvement, we upgraded our rating on Baldwin shares to Outperform in late 2024.

Reciprocal (ERIE)
The reciprocal model is being rediscovered for good reason. Erie receives 25% of premiums for managing the Erie Insurance Exchange and its captive distribution force of 3,000-plus agents. The long-term orientation of the model allows for better management and client service through the natural ups and downs of various insurance cycles. Despite having significant scale (market cap of $19 billion and member of S&P Index), we believe Erie should be able to compound in the 10% range going forward.

Specialty Brokers (RYAN)
High barriers to entry in the compelling and higher-growth excess and surplus (E&S) distribution-oriented sector create a strong long-term investment opportunity, in our view. Ryan Specialty helped institutionalize the wholesale industry and should gain share over time due to increasing scale and innovation in rapidly evolving markets (high-net-worth home, cyber, etc.). These factors suggest a long-term 15% top- and bottom-line compounding opportunity, in our view. The emerging underwriting management has the potential to push long-term growth to the 20% level.

Commercial Scalers (AJG)
Gallagher is one of the few commercial brokers investing in organizational depth, capabilities, and coordination. This combined with a historically strong sales culture should keep the company on the leading edge of organic and long-term margin expansion opportunities. Their systematic approach to M&A should also help generate growth levels above the larger publicly traded competitors. We believe low- to midteens EPS growth level is likely over the long term.

Private Companies to Watch

Exhibit 7
Insurance Distribution: Private Company Landscape

Sources: Company reports

Consumer Distribution

- ***All Web Leads:*** All Web Leads (AWL) is an insurance distribution digital platform that helps connect consumers looking for insurance policies with the right agents and carriers to match their needs. AWL serves the auto, home, health, Medicare, and life verticals, while also serving the small business owners market. AWL comprises a customer-acquisition marketing division and an independent insurance agency division where AWL's agents directly connect consumers with carrier policies. Over 15,000 agents purchase leads, clicks, and calls on the AWL platform.

- ***Branch:*** Branch is a personal lines reciprocal-focused competitor that uses technology to bundle home and auto insurance offering more affordable products to consumers. Branch operates as an MGA for the Branch Insurance Exchange, as well as two other general underwriters. It reaches customers through its agent partnerships, direct-to-consumer digital footprint, and embedded partnerships with national mortgage companies. Branch offers auto, homeowners, renters, and umbrella insurance in 36 states.

- ***Cover Genius:*** Cover Genius is the go-to insurtech provider for embedded insurance protection services for large digital companies around the world. Cover Genius helps partners embed and sell insurance and other types of protection alongside their own products. Starting in 2014, originally finding its niche with rental car aggregators, it now boasts over 200 distribution partners and over 100 million policies sold in 60-plus countries, covering various industries like banking, logistics, live event ticketing, and the gig economy.

- ***Ethos:*** Ethos is the leading life insurance distribution and technology company that allows consumers to explore rates and obtain coverage in as little as 10 minutes without need for a medical exam. Ethos also offers free will and estate planning services to its life insurance customers. Ethos's proprietary underwriting engine uses advanced algorithms to assign customers to the appropriate life insurance product so they can get the right coverage at the right price. As a third-party administrator and agent, Ethos makes money when a policy is sold to one of its life insurance partners.

- ***Evertree:*** Evertree is an insurance distribution platform that allows consumers to compare rates from over 160 carriers and find an agent for more tailored guidance. The company offers personal lines solutions for auto, homeowners, life, and umbrella policies, in addition to a broad range of commercial lines products for small businesses. Unique to Evertree, the company partners customers with local agents in the same communities with the belief that local insights and connections make all the difference. Evertree offers comprehensive claims assistance for its customers alongside the national carriers it partners with.

- ***Exzeo (HCI):*** Exzeo is an end-to-end technology platform for the P&C insurance industry. By offering capabilities such as data repository management, mapping and data visualization, quoting and policy administration, and claims management, Exzeo simplifies and expedites mission-critical workflows for insurance carriers. Exzeo manages over $1 billion of premium on its platform, primarily in the homeowners channel. Exzeo operates as a subsidiary of Florida homeowners insurer, HCI, but the company has plans to fully spin out Exzeo as its own publicly traded entity in 2025.

- ***Insurify:*** Insurify is focused on digital distribution allowing consumers to compare rates from over 100 insurance carriers for personal lines products like auto, home, and renters' insurance. The digital insurance agency has offered more than 130 million auto insurance quotes for consumers since 2013. In addition to partnering with insurance carriers, Insurify partners with media and financial services companies to further its reach with consumers.

- ***Insurvia:*** Insurvia primarily offers nonstandard auto and home insurance to Hispanic communities across the U.S. through its two independent insurance agencies. Insurvia's brands partner with over 50 of the top personal lines insurance carriers to offer affordable coverage in its nearly 300 franchised and company-owned locations across eight states.

- ***Keystone:*** Keystone is the fourth largest agency network in the country, representing $7.5 billion of written premium from over 700 agencies in 31 states. Keystone offers its agency members a wide range of insurance solutions across personal and commercial lines products, specific industry programs for niche and complex coverages, and agency tools designed to strengthen teams, operations, and relationships.

- ***Kin:*** Kin is a digital-first homeowners insurance distribution company that uses a reciprocal structure to write homeowners policies with its two exchange companies, Kin Interinsurance Network and Kin Interinsurance Nexus Exchange. Kin's direct-to-consumer model aims to offer a simpler user experience without the need for independent agents, accurate pricing by analyzing thousands of property-specific factors, and a high-quality claims service. In addition to offering homeowners insurance in 12 states, Kin offers landlord, condo, and mobile home insurance products.

- ***Pinnacle Insurance:*** Pinnacle Partners is an independent insurance agency that creates RESPA-compliant joint venture partnerships with real estate brokerages and mortgage companies across the country. Pinnacle serves over 15 of the nation's largest personal lines carriers across more than 20 states through its joint venture partnerships. Pinnacle Partners is the largest P&C insurance joint venture company in the U.S.

- ***SafePoint:*** SafePoint uses a reciprocal exchange to underwrite admitted commercial and personal lines insurance with a focus on U.S. coastal areas. Selling primarily through independent insurance agents, SafePoint offers protection for small businesses and homeowners in coastal regions. Operating in six eastern U.S. coastal states, SafePoint produced over $200 million of gross written premiums in 2024.

- ***SIAA:*** SIAA (support, inspire, adapt, achieve) is the largest independent insurance agency alliance in the country, with over $16.7 billion in written premium. The SIAA alliance is built on partnerships between SIAA, its 49 master agencies, insurance companies, and independent strategic members. Benefits to agency members include market access, profit sharing, marketing support and communications, technology and business intelligence, and training programs. SIAA represents 13% of all independent insurance agencies.

- ***The Zebra:*** The Zebra is a digitally focused insurance distribution platform. Its comparison website allows consumers to compare rates from over 200 insurance carriers, matching consumers with personalized quotes in less than 5 minutes. The Zebra primarily offers personal lines comparisons for products like auto, home, and renters insurance, but also offers commercial lines comparisons for small business and commercial auto policies, in addition to life insurance. The Zebra and its independent agents earn commissions from carriers when a policy is purchased through The Zebra website.

- ***Univista:*** Univista is a multichannel insurance platform that offers auto, home, life and health, and small business commercial insurance products through its hybrid model. With over 200 franchises, 15 corporate-owned offices, an MGA brand, and digital footprint, Univista serves Hispanic communities across the U.S., but primarily in Florida and Texas. Earlier this year, Univista received a majority investment from GRAM's private equity buyout fund, with the capital expected to go toward expanding Univista's product portfolio and reach.

- ***We Insure:*** We Insure is a national agent insurance franchisor, offering a tech-powered platform and turnkey solutions for over 140 agencies in 33 states across the country. Key offerings for We Insure's agency franchisees include over 150 carrier partners for personal and small business commercial lines, an easy-to-use technology platform that scales with an agent's needs, and comprehensive claims assistance support.

Specialty

- ***Amwins:*** Amwins is the largest U.S. wholesaler and underwriting manager responsible for placing over $40 billion of annual premium globally. Offering a wide range of solutions, including E&S placements, benefits wholesale, alternative risk offering, MGA programs, and reinsurance broking, Amwins is a premier brokerage partner and one of three wholesale brokerage firms focused on the E&S market. Over the last decade, Amwins has helped drive the E&S and specialty insurance markets and has been one of the highest organic rates of distributors at scale.

- ***Brown & Riding:*** Brown & Riding is a top 10 national wholesale broker that places over $2 billion in annual premium. Through Brown & Riding's underwriting and select accounts division, the company can quote and bind authority to write monoline P&C products including inland marine, builder's risk, motor truck cargo, and more. Practice areas of expertise include industries such as financial institutions, franchises, healthcare, and hospitality.

- ***CRC Group:*** CRC is a leading independent brokerage and underwriting specialty insurance distributor. CRC partners with over 650 carriers to place over $30 billion in annual premium globally. CRC offers a wide range of products from wholesale brokerage and program management to employee benefits solutions and reinsurance solutions. Similar to Amwins, CRC is one of three specialty wholesale brokers that focuses on the E&S market.

- ***Jencap:*** Jencap is the fourth-largest wholesaler brokerage in the U.S. with expertise in wholesale brokerage, program management, and binding authority. Jencap has exclusive programs for hard-to-place risks in areas such as luxury home builders, site pollution liability, storage tanks, and event liability and cancellation.

- ***Monarch:*** Monarch E&S Insurance Services is an insurance agency specializing in E&S insurance solutions for retail insurance brokers across personal lines, commercial lines, and professional liability lines. Coverage niches include high-value homeowners, valuable collections, liquor liability, commercial property, and kidnap and ransom insurance.

- ***Slice:*** Slice offers E&S insurance for small and midsize commercial insureds through its tech-driven insurance marketplace. The digital-first platform offers real-time quoting, automation, and policy management. Built for agents and brokers, Slice streamlines the insurance placement process for small businesses.

- ***USG Insurance Services:*** USG is a national wholesale broker and MGA that works with admitted and non-admitted carriers. USG places over $330 million in annual premium across all 50 states and 300-plus brokerage markets including commercial/personal lines, specialty lines (e.g., surety bonds, oil and gas, environmental), and national programs.

Commercial Scalers

- ***Alliant:*** Alliant provides a broad range of insurance and risk management solutions, including employee benefits, disability and life benefit plans, absence management, and more. With over $5 billion in annual revenue and over $47 billion of placed premium, Alliant is positioned as the fifth-largest commercial retail insurance brokerage firm in the U.S.

- ***HUB:*** HUB is one of the top private insurance brokers on a global basis in terms of growth, scale, and quality. The firm is a full-service insurance brokerage offering a wide array of insurance solutions across several industries in North America. In addition to its insurance solutions, HUB runs employee benefits, retirement, and wealth management practices. In May 2025, a minority investment valued HUB at $29 billion, making it the largest valuation for private insurance brokerage.

- ***Lockton:*** As the world's largest privately owned global insurance broker, Lockton offers a range of brokerage services for P&C insurance and reinsurance markets, in addition to employee benefit services, capital solutions, and MGA services. Lockton produces over $4 billion of annual revenue across more than 155 countries.

- ***Newfront:*** Newfront is perhaps the only technology-native competitor among sizable brokers. The firm is a full-service insurance brokerage and consulting firm offering business insurance, public offering, and asset protection services. Newfront leverages advanced technologies and AI to create a single easy-to-use, dynamic platform for insurance professionals. This technology edge has allowed the company to rise quickly through the ranks and will likely be one of the keys to Newfront becoming one of the larger brokers over time. Newfront has placed over $3 billion in annual premiums, serving over 14,000 clients and supporting thousands of public offerings.

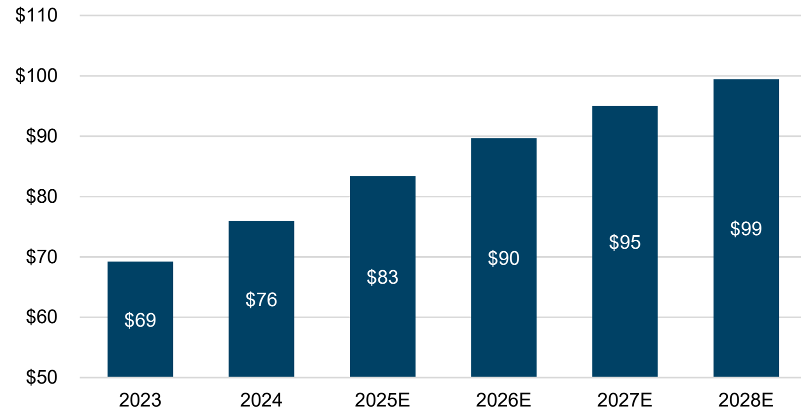
- USI: USI provides insurance brokerage, employee benefits, personal risk consulting, and retirement solutions to its U.S. clients. What distinguishes USI from the competition is its USI ONE (omni, network, enterprise) approach. Through USI ONE, USI creates strategic, timely, and effective risk management and benefit programs that are simple and create a positive economic impact.

The Rise of Consumer Distribution

The rapid growth of personal lines markets provides a significant opportunity for consumer-focused distributors. Inflationary pressures in the core market should drive above-average market growth and create a secular growth story over the next five years. In the last three years, the underlying auto and home markets have increased from $393 billion of direct premiums written to $528 billion, or at an annual compound rate of 10%. This compares to a historical growth of 4% over the last 20 years. With commission rates averaging 12% to 14%, the consumer distribution opportunity has increased from roughly $50 billion to $75 billion.

The personal line markets are poised to grow well above historical rates going forward. One significant driver is above-average weather and catastrophe volatility in the homeowner's market. We believe that outsized homeowners insurance growth is not isolated to perceived high-risk markets such as California, Florida, and Texas. Several factors—including apparent changes in weather patterns, rising home and repair values, and demographic shift toward the coasts—suggest that insurance rates and related premiums will at a minimum compound in the high single digits if not above.

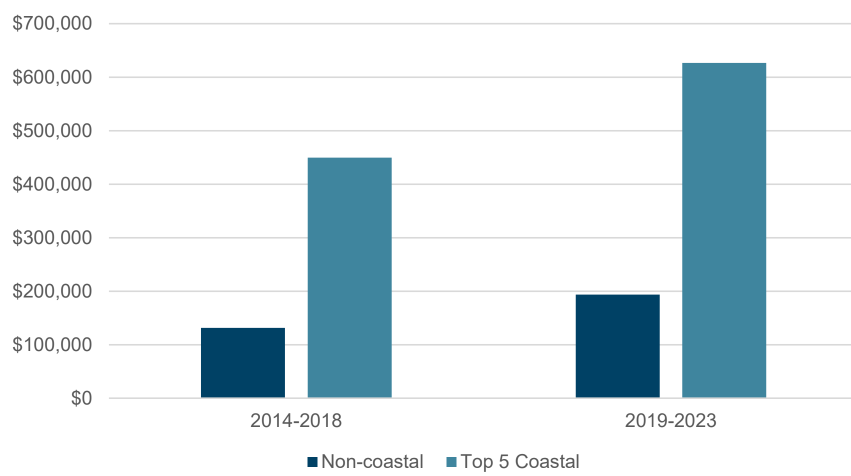
Exhibit 8
Retail P&C Insurance Distribution Market Size
(Dollars in billions)



Retail P&C includes personal auto, homeowners, renters, and small commercial.
Sources: Company reports, S&P Global Market Intelligence, and William Blair Equity Research

While the demand for policy volume should continue to increase, so should the dollar value basis of homeowners policies. One of the key determinants of a homeowners insurance premium is the value of the home, and home values have seen a steady increase over the past several years. The U.S. Case-Shiller Home Price Index, which measures the average price increases for single-family home sales, has increased an average of 10% per year since 2020. Home prices have especially spiked in coastal counties in the U.S., which are also typically more prone to catastrophic weather events. The average value of a home in one of the top five U.S. coastal counties has averaged over three times higher than the average non-coastal home. From 2019 to 2023, the average coastal home value was over $625,000, compared to roughly $193,500 in the remainder of the country. Valuation is not expected to cool off anytime soon, with the U.S. home price index expected to trend in the 310 to 315 range through at least 2025, versus a range in the mid- to high 200s in 2021 and 2022. This should provide continued support for premium growth in the homeowners insurance market.

Exhibit 9
Homeowners Insurance
Average Home Values Coastal vs. Non-Coastal Counties

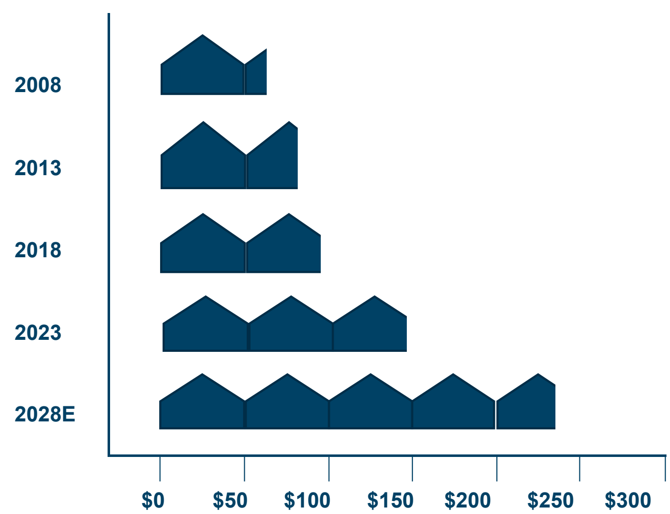


Sources: Zillow and National Oceanic and Atmospheric Administration

More prevalent and severe catastrophic weather activity is also likely a contributor to growth in the homeowners insurance market. Awareness and concern about the changing climate have been on the rise, with a survey by Fannie Mae suggesting that individuals, particularly those in the southern U.S., are highly concerned about strong winds from tornadoes and hurricanes. Events like the back-to-back hurricanes that hit the southwest in September and October of 2024 should drive further awareness and demand for coverage, and the losses from the events should serve as a justification for further rate increases in the homeowners insurance market.

The combined impact of rising home values and risk has resulted in the homeowners insurance market doubling in size from 2007 to 2023. Most of the growth has taken place in the past five years when these trends began to inflect; the compound annual growth rate was 9% from 2017 to 2023, compared with 4% from 2013 to 2018. Considering home values are unlikely to revert to historical levels and the threat of catastrophic weather damage continues to increase, we expect the momentum of growth in the market to keep picking up over the next several years. Our estimate conservatively assumes that homeowners insurance market growth gradually declines from the midteens to the midsingle digits. This suggests the market would be worth over $230 billion by 2028; however, upside is possible if recent growth levels prevail.

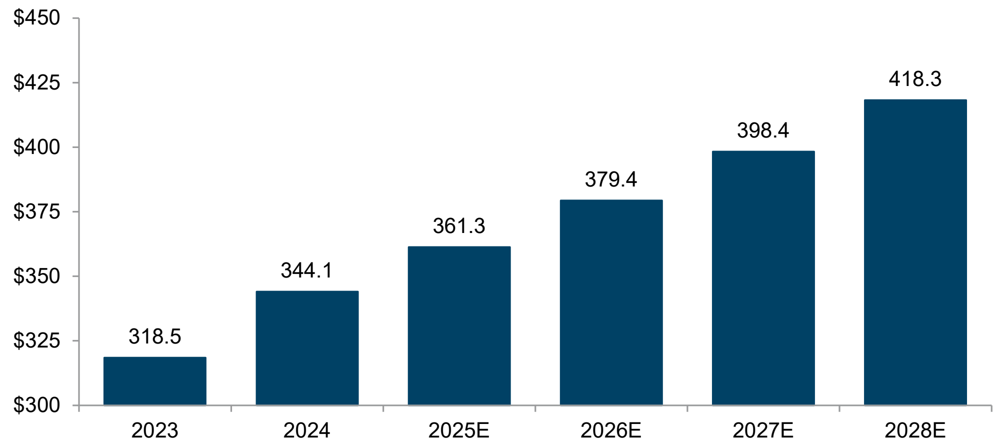
Exhibit 10
Homeowners Insurance
Estimated Total Addressable Market
(Dollars in billions)



Sources: S&P Capital IQ & William Blair Equity Research

It is not likely that the auto market will maintain its torrid pace of the last few years, although it remains well positioned for growth above historical levels. Auto premiums are driven by several factors, including the value of vehicles (new and used), auto report costs, and litigation and medical trends—and there are no signs of these higher medical and legal costs abating. In addition, increasing auto complexity could put upward pressure on long-term repair costs. Overall, this insurance premium segment will likely grow in the 4% to 6% range at a minimum for the near term. Auto insurance premiums, which drive broker commissions, are likely to grow from roughly $300 billion in 2023 to over $400 billion by 2028.

Exhibit 11
Private Passenger Auto Insurance Growth ($ in Billions)



Sources: S&P Capital IQ Plus and William Blair Equity Research

The other main factor driving success of emerging consumer distributors is the long-term secular decline of captive distribution models. State Farm, Farmers, Allstate, and Nationwide, which once dominated personal lines distribution market, are likely to continue to erode further over the next five years. The captive share of personal lines has contracted from 40% in 2013 to and 34% in 2023. Several factors contribute to this decline. Strategy of being everywhere for everyone has resulted in geographic overexposure, lack of technology inhibits analytics, and high-cost structures. The erosion of industry stalwarts coincides with the customer's increasing need/demand for hand holding. Individuals that buy auto and home insurance are being hurt by rapid inflation of products, which is not likely to end any time soon. Clients are also facing greater risks from weather threats and increased cost of cars and repairs.

Exhibit 12
Share and Premium Loss of Personal Line Captive Insurers

	Market Share			Aggregate Premium Lost*
	2014	2024	(%) Change	(in Billions)
State Farm	19.08%	18.62%	-0.46%	$56.7
Allstate	10.41%	9.74%	-0.67%	$16.5
Farmers Insurance	6.42%	4.30%	-2.12%	$43.2
Nationwide	3.89%	1.71%	-2.18%	$46.2
Total	39.80%	34.37%	-5.43%	$162.6

* Defined as the total aggregate premium lost by a carrier over the ten year period

Sources: S&P Capital IQ Plus

Consumer Business Models

Exhibit 13
Insurance Brokers and Distributors
Valuation Analysis

Company	Ticker	Price	Market Cap ($M)	Cash P/E 2025	Cash P/E 2026	EV/EBITDA 2025	EV/EBITDA 2026	MWROIC 2025	MWROIC 2026
Retail Brokers									
Goosehead Insurance	GSHD	$102.40	$3,789	57x	46x	36x	29x	125x	86x
TWFG, Inc.	TWFG	$35.00	$1,962	49x	41x	33x	27x	34x	29x
Baldwin Group	BWIN	$42.70	$4,649	24x	19x	18x	15x		86x
Mean				**43x**	**36x**	**29x**	**24x**	**80x**	**22x**
Vertically Integrated									
GoHealth Inc.	GOCO	$5.85	$65			5x	5x		45x
eHealth Inc.	EHTH	$4.18	$127			1x	1x		
Mean				**N/A**	**N/A**	**3x**	**3x**	**N/A**	**45x**
Reciprocals*									
Erie Indemnity	ERIE	$340.45	$15,855	27x	23x	16x	14x	35x	29x
Mean				**39x**	**33x**	**18x**	**15x**	**65x**	**25x**
Median				**38x**	**32x**	**17x**	**15x**	**35x**	**45x**

* ERIE EBITDA calculated as Operating Income before Taxes - Other Income (expense) + D&A

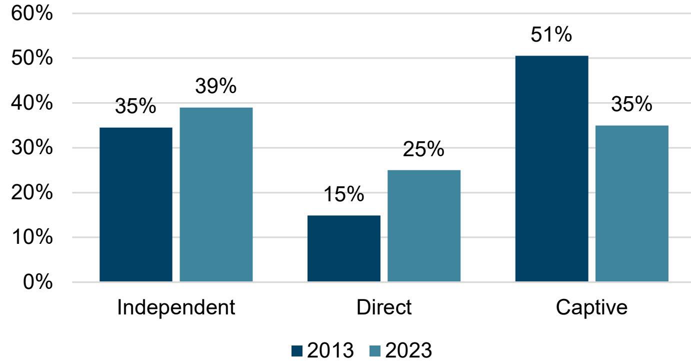
Sources: FactSet, company reports, and William Blair Equity Research

Retail and consumer distributors focus on personal lines P&C products purchased by individuals such as personal auto and homeowners insurance. They are primarily compensated through commissions derived as a percentage of premiums placed. Commission rates are determined by insurance carriers and can vary across products and markets. However, on average, commission rates are typically between 12% and 14% of premiums. Commission income is sticky. Historically, annual premium retention at the two public retail-oriented brokers (Goosehead and TWFG) has been in the high-80% to low-90% range.

There are three primary distribution channels for retail/consumer insurance: 1) captive agents (e.g., State Farm), which distribute products from a single insurance carrier; 2) independent agents (e.g., TWFG), which distribute products from multiple insurance carriers; and 3) direct carrier (e.g., Progressive), which distribute direct-to-consumer online through self-service online portals or over the telephone through salaried employees in a centralized call center.

Historically, captive agents had been the dominant distribution channel. The independent channel has typically been defined by smaller, fragmented agencies with a greater focus on consumer relationships versus product specialization. Direct distribution is the relative newcomer enabled by improving technology and changing consumer preferences. Direct has gained significant market share over the past decade at the expense of captive agents. However, independent agents are not only remaining relevant but taking market share. According to the Independent Insurance Agents & Brokers of America, over the past decade the market share for independent agents has increased to 39% from 35%. We believe independent agents are best positioned to distribute more complex, higher-value products, where there can be a relatively large pricing disparity between carriers—homeowners is a good example. Direct is best positioned to distribute relatively simple products—auto is a good example. We believe independent agents and direct channels will continue taking share from captive agents given their relative advantages.

Exhibit 14
Personal Lines Distribution Market Share by Channel



Sources: Independent Insurance Agents & Brokers of America
Equity Research

Retail Aggregators

A newer breed of personal lines distributors has been emerging in the last decade. Retail aggregators are potentially the fastest-growing form of distribution business models over the next decade. The organizations provide infrastructure including technology, insurance markets/placement capabilities, and scaled serviced capability to the highly fragmented and subscale independent agent (IA) market. This is a huge swath of the insurance market. The IA market consists of tens of thousands of individual mom-and-pop businesses that control roughly 40% of the $500 billion auto and home insurance segment. The retail aggregators, such as Goosehead and Woodlands Group, provide materially enhanced infrastructure that allows small IAs to compete against large captive distribution systems. This model is particularly compelling going forward as the captive distribution systems (State Farm, Farmers, etc.) erode and lose market share over the long term.

Key Competitors: Baldwin (BWIN), Evertree, Goosehead (GSHD), Insurvia, Keystone, Pinnacle, SIAA, Univista, Woodlands (TWFG), and We Insure.

Reciprocals

Reciprocals are services managers for a mutual insurance-like organization that does not incur balance sheet or related loss volatility. The attorney in fact is the manager for the reciprocal exchange, which is the insurance company. This type of insurance structure is not well known but is well established. Farmers and USAA are 2 of the 10 largest personal line insurers in reciprocals, with Erie a top 20 competitor that has been around for 100 years. The attorney receives a fee for managing the organization but does take the insurance risk. The fee typically ranges from 20% to 30% of premiums at the exchange and is usually stable. For example, the fee at Erie Indemnity has been consistent at 25% of premiums for the last two decades. The other element of the reciprocal structure is that claim payments come from Erie Exchange, the insurance company. The advantage of the structure is that it allows for a relatively stable insurance market for customers and agents. This helps reciprocals, as the primary driver for consumer insurance is raising prices. It can also allow for favorable levels of agent and customer service if run well. The other main advantage of the structure is that it shields investors from loss volatility inherent with owning a traditional insurance company.

Key Competitors: Branch, Erie Indemnity (ERIE), Kin, Porch (PRCH), and Safe Point.

Vertically Integrated Distributors

A new breed of insurance distributor has been popping up in the last decade. The vertically integrated cohort is in the early stages of emergence and has good long-term potential despite lower current visibility. These firms have varied products and business models. The common threads are using digital or other marketing to attract flow of potential customers and acting as an agent by closing the leads and placing the business. This differs from the traditional agent/broker model, in that the agent is not typically responsible for generating the flow of potential business. For example, a number of digital-oriented companies (i.e., AWL or Insurify) generate a large amount of mainly auto insurance leads and then utilize their own in-house agency to broker the clients to a range of insurers. The Medicare brokers also fall in this segment. Distributors, such as eHealth and GoHealth, generate large volumes of potential customers through TV, print, and digital media ads and use in-house agents to advise and place clients with mainly Medicare Advantage insurers. The advantages of the vertically integrated model include the ability to attract and build a good size customer base, better integrate analytics into the acquisition and retention process, and adapt to changing consumer trends. This segment has had challenges, but we believe it is worth watching over the long term.

Key Competitors: AWL, Cover Genius, eHealth (EHTH), Ethos, GoHealth (GOCO), HPOne, Insurify, SelectQuote (SLQT), Spring Venture, and Zebra.

Consumer Distribution Performance Metrics

Exhibit 15
KPI Analysis
Three-Year Average (2022-2024)

Revenue Growth		Organic Growth		EBITDA Margin	
BWIN	37%	GSHD	27%	GSHD	25%
GSHD	28%	BWIN	20%	BWIN	21%
TWFG	18%	TWFG	16%	TWFG	19%
ERIE	13%	ERIE	15%	ERIE	18%
EHTH	2%	EHTH	2%	EHTH	2%
GOCO	-5%	GOCO	-2%	GOCO	2%
Mean	**15%**	**Mean**	**13%**	**Mean**	**15%**

* ERIE EBITDA calculated as Operating Income before Taxes - Other Income (expense) + D&A

Sources: FactSet, and company reports

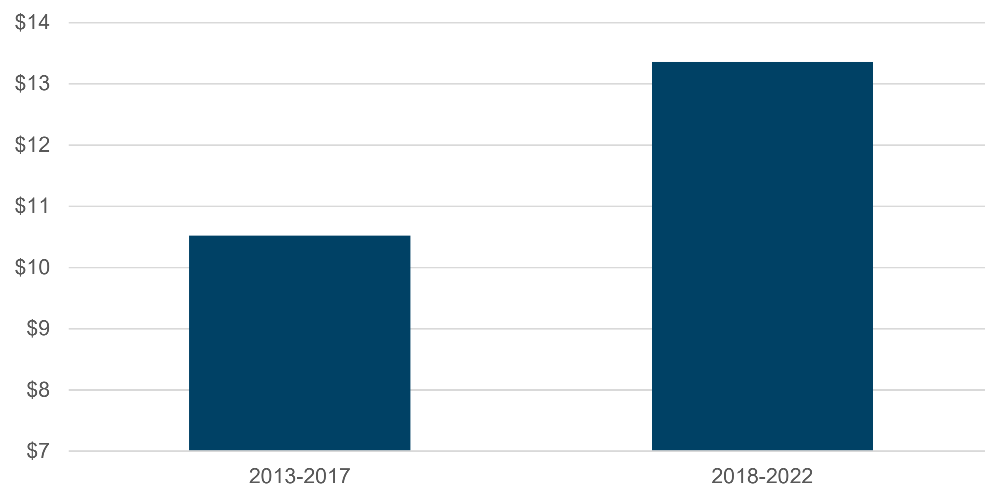
Specialty Market Distribution

Structural changes to risk in the overall market, which include rising weather complexity and litigation severity, have resulted in E&S premium growth averaging roughly 2.5 times above commercial lines premiums over the past five years. We use nominal GDP projections as a guideline for standard commercial insurance premium growth as it tends to track on almost a one-to-one basis; currently nominal GDP is expected to grow in the 4% to 5% range through 2026. Our estimates conservatively assume that the E&S market may grow at roughly double the overall market, which suggests a high-single-digit growth outlook.

As we discussed in our claims severity report, the P&C industry is facing a significant shift in casualty severity levels, as plaintiff lawyers are evolving into increasingly sophisticated adversaries and the underlying commercial client is evolving to expose insurers to greater depths of losses. Lawyers are ramping up their advertising spend and becoming more advanced at targeting customers, while juries are increasingly sympathetic. This is driving a higher level of litigation and higher payouts for litigated claims. Further, consolidation in commercial client industries means insurers are no longer covering mostly small mom-and-pop businesses, but instead are responsible for the risk of large corporations. The result is a steep increase in commercial claims severity, which is affecting current claims and reserve estimates for unresolved prior-year claims. The average cost per claim from 2018 to 2022 was over 25% higher than from 2013 to 2017. While there is more awareness around this issue, we expect that continued unfavorable development will drive commercial insurers to increase their conservatism, driving a higher level of risk to the E&S market.

The insurance industry is on the cusp of a dangerous shift in litigation and deepening severity. Two interacting forces are pushing the nature of liability insurance in a new direction. Plaintiff lawyers are evolving into increasingly sophisticated adversaries. At the same time, the changing nature of the underlying commercial client is exposing insurers to greater depths of losses. The plaintiff segment is becoming increasingly advanced in its funding structure, utilization of analytics, and adaption of enhanced marketing/advertising techniques. This threat is exacerbated by a rapid acceleration in the consolidation of underlying insurance clients. A number of core industry segments, such as real estate, trucking, and medical providers, have undergone unprecedented levels of consolidation in the last decade. Consequently, what used to be small insured clients with modest insurance limits are now part of larger organizations with exponentially higher coverage limits. These insureds are becoming attractive targets for an increasingly sophisticated and well-funded plaintiff bar.

Exhibit 16
Commercial Lines Industry
Average Losses per Claim (Dollars in Thousands)



Source: S&P Capital IQ Plus

This dual threat is manifesting in several ways.

- ***Plaintiff lawyers (with increased funding) are extending the litigation process.*** This goes against the grain of insurers' No. 1 strategy—to win through litigation attrition. The result is higher-dollar-value settlements as lawyers have longer staying power. Legal firms have also gotten considerably more aggressive in their tactics to seek out potential claims and increase the likelihood that clients will elect to take insurers to trial. The average loss per claim for litigated commercial product lines has therefore increased over 25% from the period of 2013 to 2017 to the period of 2018 to 2022. Much of the increase has been explained away as "social inflation," which typically refers to the idea that rising negative sentiment toward large corporations (including insurers) is driving juries to increase the settlements paid out for claimants. However, we believe there are deeper structural shifts occurring that suggest litigation will likely have a long-term impact going forward.

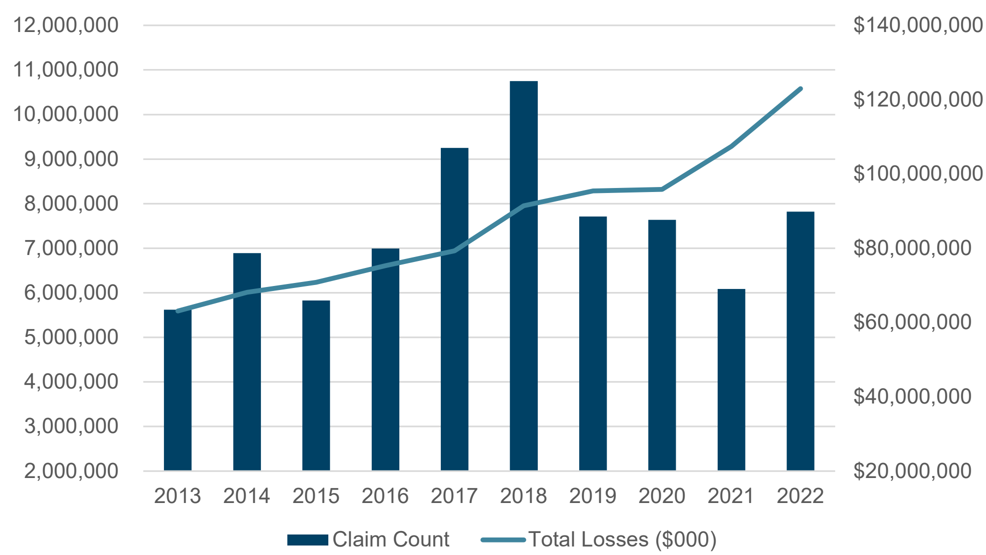
- ***Coverage limits are increasing exponentially.*** Rising levels of consolidation in key insured industries mean that plaintiffs can now go after a limit of $5 million to $25 million of larger consolidated organizations, compared with the typical $1 million limit for mom-and-pop businesses. For example, from 2012 to 2018, the majority of physician practices (55% to 60%) were wholly owned by the physicians themselves and the remainder were primarily owned by hospitals or nonprofits (35% to 40%). From 2012 to 2022, the percentage of practices wholly owned by physicians declined over 13%, with physician-owned practices making up only 46% in 2022. This has a significant impact on the average coverage limits that insurers are facing for liability and medical malpractice claims.

- ***Friction is present within coverage chain.*** Primary insurers are seeing a significant increase in the prevalence of hammer clauses from excess coverage providers (reinsurers). This pushes the primary insurer to settle or face litigation from both sides (plaintiff and excess insurer).

Losses to Put Pressure on Ill-Prepared Industry

Due to these manifestations, losses have been consistently on the rise over the last several years. Total losses for the commercial lines industry were over $120 million in 2022, representing compound growth of 9% since 2017, despite a lower number of claims. This is putting pressure on commercial insurers and it should only increase going forward, given rate levels are beginning to moderate off the high levels in 2022/2023.

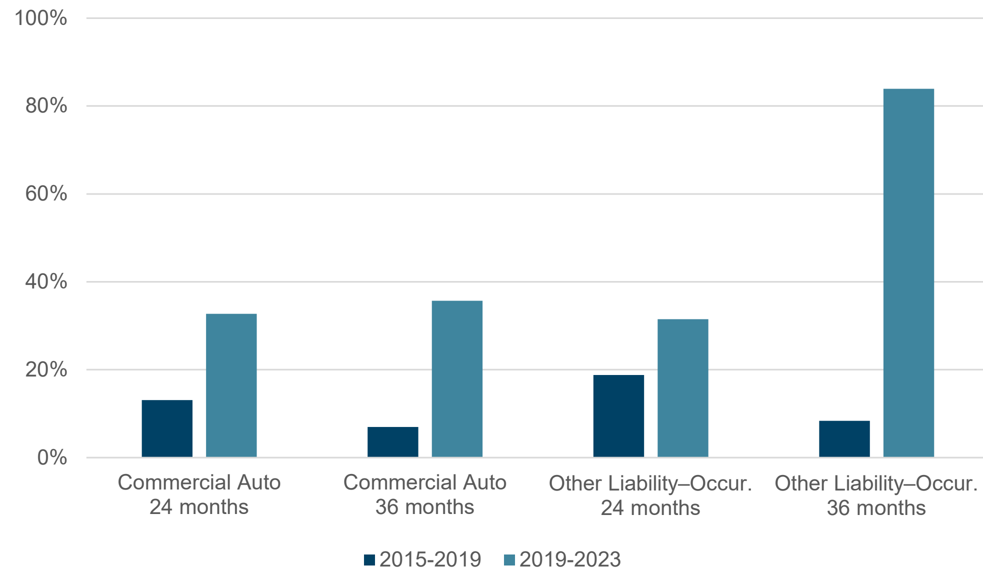
Exhibit 17
Commercial Lines Industry
Claim Count vs. Total Loss



Source: S&P Capital IQ Plus

While there is some impression that recent severity increases may be reflective of a slowdown during pandemic lockdowns and a subsequent catch-up in settlements when courts reopened, the growth in average claim severity from year-end 2019 to 2023 is significantly larger than what was seen from 2015 to 2019, which shows up throughout the first 48 months of the claims settlement cycle. While commercial auto reported claims through the first 36 months grew 7% from 2015 to 2019, the increase was over 35% from 2019 to 2023. Comparable growth is seen in other liability–occurrence lines, where reported claims through the first 36 months grew just over 8% from 2015 to 2019 and almost 85% from 2019 to 2023. The level of increase therefore suggests a structural change is occurring.

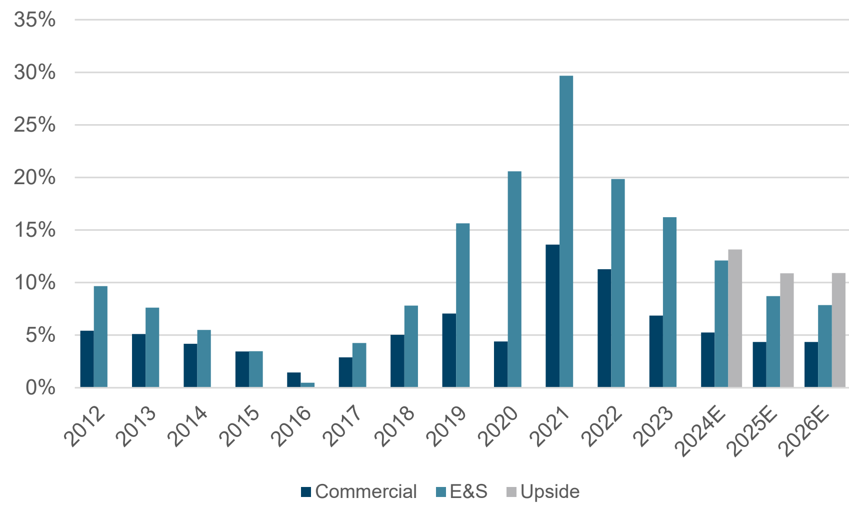
Exhibit 18
Commercial Insurance
Cumulative Severity Increase



Sources: S&P Capital IQ Plus and Paradigm Actuaries

Weather risk also continues to rise in both prevalence and complexity. The average insured catastrophe loss in the U.S. was almost 2 times higher from 2018 to 2022 compared with 2013 to 2017. Standard insurers are facing a rapidly evolving weather environment against a slow regulatory approval process that often results in inadequate pricing levels for property risks. As a result, standard insurers are opting out of covering catastrophe-exposed property risk at an increasing rate. While commercial property has historically had a presence in the E&S market, personal property has been a standard product. This has been shifting in recent years. E&S homeowners premiums reached over $2 billion in 2023, up from less than $1 billion in 2017. With standard insurers tightening their exposure to catastrophe exposed property risk, customers with ultra-high-value homes or those seeking specialty coverage (e.g., flood, earthquake, wildfire) are having a difficult time obtaining coverage. Government agencies are also pulling back capacity; for example, the California Earthquake Authority has been steadily reducing its coverage over the past several years, leaving a higher level of risk in the private sector. Therefore, although property pricing is beginning to cool off, volume increases should sustain elevated levels of E&S property growth.

Exhibit 19
E&S Insurance Industry
Commercial vs. E&S Premium Growth



Sources: S&P Capital IQ Plus and William Blair Equity Research

The drive toward specialized and tailored insurance is translating into greater demand for value-added insurance distribution. Other factors driving more business toward the E&S market include:

- Core brokers have developed talent but not often deep areas of expertise
- People, capital, and innovation are increasingly shifting toward specialty brokers (wholesalers and managing underwriters)
- Underwriting is becoming more tailored and bespoke—less of commodity and more focus on structure

Specialty Business Models

Wholesalers

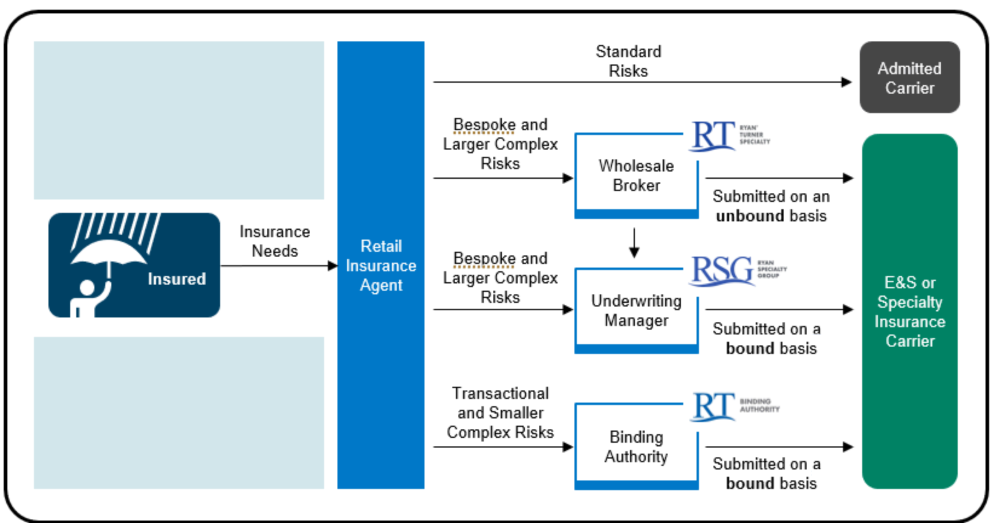
Wholesalers (also known as brokerage) aggregate specialized risk from the 20,000 commercial brokers and funnel/filter it to roughly 100 specialty insurance companies. The business is mainly focused on the excess and surplus (E&S) market, which has doubled in the last five years to over $100 billion in premium. In addition, wholesalers distribute a material volume of niche premium from the admitted markets. Large wholesale brokers offer scale and volume advantages to the often niche-focused E&S insurers by connecting them with a large network of retail agents. As the industry has matured, brokers have focused their expertise and expanded the capacity of the distribution channel. We expect that as the larger wholesale presence continues to expand, it will facilitate streamlined specialty risk placement and support growth in the E&S market.

Wholesale brokers are insurance intermediaries that provide access to the E&S lines market, which is a subset of the overall P&C market. The E&S market is distinguished from the relatively larger "admitted" or "standard" market by differing regulation that allows risk capital carriers (e.g., specialty insurance carriers or Lloyd's of London syndicates) greater flexibility to customize terms, pricing, and conditions. In contrast to retail or commercial brokers, wholesale brokers do not maintain direct relationships with the individuals and businesses that are the ultimate purchasers of insurance coverage. Rather, wholesale brokers are intermediaries between these retail and commercial brokers and the E&S market. Wholesale brokers are primarily compensated through commissions derived as a percentage of premiums placed.

Underwriting Management (MGA/MGU)
Underwriting management is one of the most rapidly expanding sectors in the distribution landscape. Similar to the wholesale channel, MGAs and MGUs help retail brokers place specialty risks that do not easily fit into underwriting boxes of standard carriers. However, these distributors act as insurers and then pass along the risk to third parties. In contrast, wholesalers are pure brokers focused mainly on placement. MGAs function like insurance companies by underwriting and issuing policies, setting up reinsurance, and working on claims, but they do not take the risk. This segment of the market is expanding rapidly, as specialty talent shifts from large insurers and brokers to more entrepreneurial and nimble underwriting structures. Given the emerging nature of underwriting, growth potential is very high. For example, Ryan Specialty's main underwriting segment has grown over 50% in the last year (organic and in organic).

MGAs/programs are specialized intermediaries that are given delegated underwriting authority by insurance carrier partners to create and manage specific insurance programs and underwrite policies on their behalf. While MGAs/programs are responsible for designing and administering policies, they ultimately rely on the contractual capital backing and regulatory licensing of insurance carriers that hold the risk. Given MGAs' increased responsibilities, they typically receive a larger commission as a percentage of premium relative to brokers. Carriers can benefit from the use of MGAs/programs to quickly gain access to niche areas of risk with limited internal investment.

Exhibit 20
Ryan Specialty Group Holdings, Inc.
E&S Insurance Market Structure

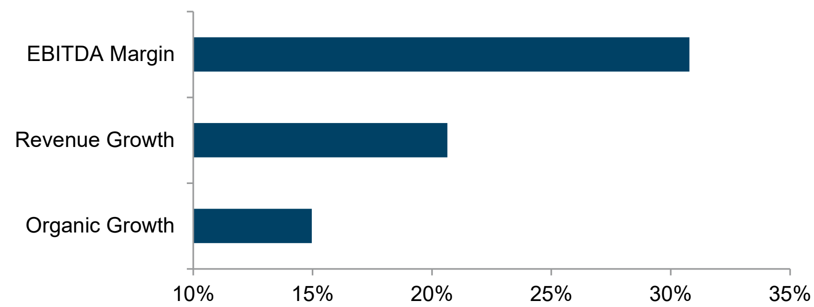


Sources: Company report

Companies to Watch: Amwins, Brown and Riding, CRC Group, Jencap, Monarch, RT Specialty, and USG Insurance Services.

Specialty Distribution Performance Metrics

Exhibit 21
Ryan Specialty
Three-Year Average (2022-2024)



Sources: FactSet

Scaling and Leveraging the Commercial Broker

Commercial distributors focus on commercial lines P&C products purchased by businesses such as commercial property, workers' compensation, financial and professional lines (e.g., directors and officers), and employee benefits. They are compensated both through commissions derived from premiums placed and fees paid by customers for brokerage services. Although there are nearly 40,000 insurance brokers and agents in the United States, the market has consolidated over the past decade. Consider that, the top 50 P&C insurance brokerages grew revenue at a nearly 10% compound annual growth rate over the past decade, compared to roughly a 5.5% CAGR for overall P&C premiums. We categorize the brokerage industry into three competitive tiers: 1) the global brokers, 2) the middle-market brokers, and 3) the long-tail brokers. However, the division between global brokers and middle-market brokers has begun to blur in recent years as global and middle-market brokers have expanded their reach both up- and downmarket.

1. As their name suggests, the global brokers operate on a global basis and provide a full range of brokerage and risk management services to large corporations often with global footprints (i.e., *Fortune* 1000). Historically, this tier included three of the largest brokers: Marsh & McLennan, Aon, and Willis Towers Watson.

2. Middle-market brokers offer brokerage and risk management services to midsize and large corporate clients. Examples of publicly traded companies include Arthur J. Gallagher, Brown & Brown, and The Baldwin Insurance Group. In addition, there are several large private and sponsor-backed companies such as Alliant, TIH, Acrisure, and Hub International.

3. The long-tail brokers provide a mix of commercial and personal P&C insurance to small business clients. Within this tier, which includes thousands of small firms, the group is diverse in terms of size. Consider the 100th-largest broker generated roughly $30 million of revenue in 2022. The long tail of brokers typically generating $10 million of revenue or less has provided a sizable hunting ground for tuck-in acquisitions.

Exhibit 22
Insurance Brokers and Distributors
Valuation Analysis

Company	Ticker	Price	Market Cap ($M)	Cash P/E 2025	Cash P/E 2026	EV/EBITDA 2025	EV/EBITDA 2026	MWROIC 2025	MWROIC 2026
Core Brokers									
Arthur J. Gallagher	AJG	$318	$81,371	29x	23x	17x	14x	42x	29x
Aon plc	AON	$353	$76,169	21x	18x	16x	15x	43x	30x
Brown & Brown	BRO	$110	$35,712	26x	24x	22x	20x	45x	38x
Marsh McLennan	MMC	$217	$106,907	23x	21x	17x	16x	41x	35x
WTW	WTW	$305	$30,191	18x	16x	13x	12x	30x	21x
Mean				**23x**	**20x**	**17x**	**15x**	**40x**	**31x**

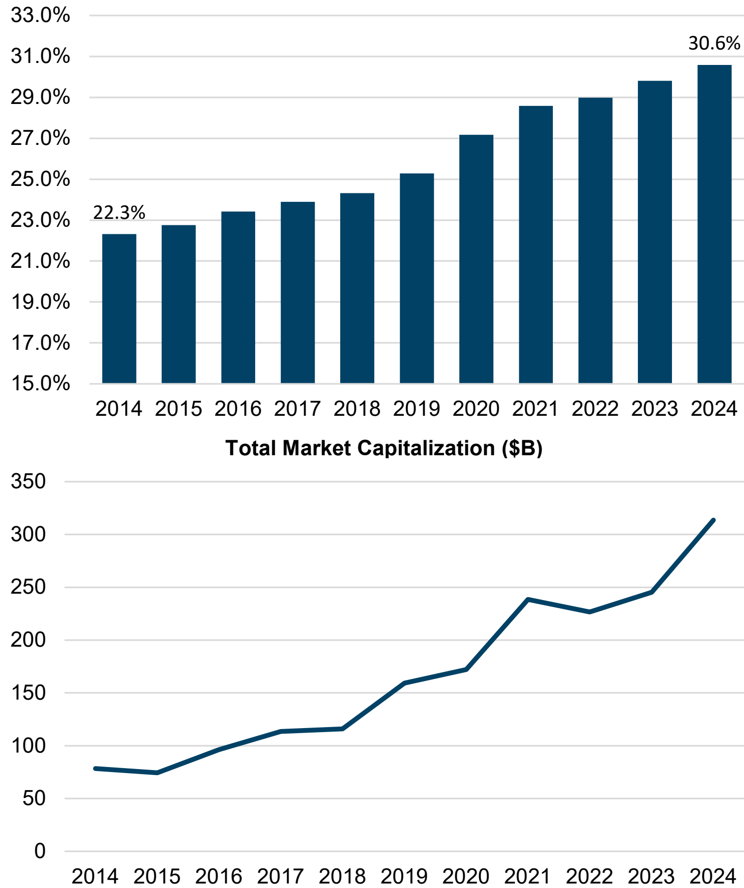
Sources: FactSet, company reports, and William Blair Equity Research

The broker industry has been one of the most successful over the last several decades and has undergone significant structural change in last five years, which should continue over next decade. Brokers emphasized and deepened core advantages, such as owning the customer, long retentions, and significant share of transaction economic. These advantages have led to strong earnings and free cash flow growth. Despite this impressive track, brokers have had setbacks. The sector ranks low on innovation, is a slow technology adapter, and is historically undermanaged. This can mainly be ascribed to the consolidation orientation and resulting fragmented nature of most brokers. This paradigm, however, is shifting. Several larger and forward-thinking brokers are instituting centralization strategies with a focus on leveraging scale. While intuitive, this has not been the historical norm.

Over the past decade, the insurance brokers have “grown up,” amassing significant scale and specialized capabilities. Considering that, according to *Business Insurance*, the U.S. brokerage revenue of the five largest public insurance brokers was nearly $30 billion in 2022, which is greater than the total U.S. brokerage revenue of the top 100 insurance brokers in 2011. With greater scale, the brokers have been able to 1) create cost efficiencies by centralizing back office and service functions and 2) invest in differentiated technology that improves productivity begetting even greater scale.

The result has been a large improvement in adjusted operating margins. On average, the five core brokers—Aon, Marsh & McLennan, Willis Towers Watson, Arthur J. Gallagher, and Brown & Brown—expanded margin by 650 basis points between 2013 and 2023. Among the group, the greatest gains have been achieved by the three largest brokers—Marsh & McLennan, Aon, and Arthur J. Gallagher—which expanded margins by roughly 800 to 1,200 basis points during that time frame. ***With adjusted operating margins at historically high levels that are nearing, and for some surpassing, roughly 30%, a key question is whether margins are reaching a ceiling.***

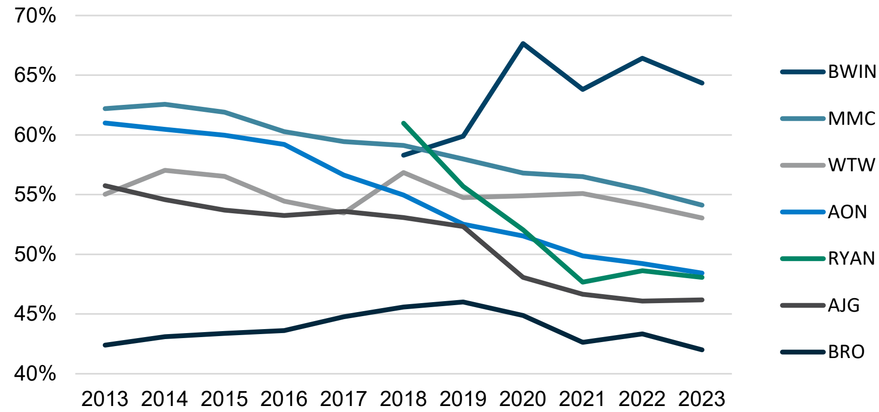
Exhibit 23
Core Insurance Brokers
Adjusted Operating Margin



*Adjusted operating margin Includes AON, MMC, AJG, and BRO
Sources: Company reports and FactSet

Focusing on efficiency, exhibit 24 displays diverging brokers' skills at optimizing their operating costs and potential for further improving their margins. Traditionally, brokers have been evaluated based on their compensation ratio and operating cost ratio. A shortcoming of this approach is that the expenses within the compensation line item include producer payouts (essentially cost of goods sold) but also salaries associated with back-office and service functions that can be leveraged through scale or benefit from cost-saving automation. With our efficiency benchmark framework, we attempt to reorganize how expenses are categorized so that the relatively variable producer payouts are separated from semi-fixed, scalable overhead costs. The result is our efficiency benchmark, which represents the "true overhead costs" as a percentage of revenue that can be leveraged.

Exhibit 24
Insurance Brokers
Efficiency Benchmark (2013-2023)



Sources: Company reports, FactSet, and William Blair Equity Research

Scaled Centralizing Business Models

The current movement is characterized by using enterprise management, developing data bases/analytics, focusing on supply chain management, and constructing vertical centers of expertise. In other words, leading brokers are becoming cutting-edge organizations (at least the ones taking the leap forward). The core benefits are obvious—greater efficiency (margin), improved client capabilities, and enhanced levels of consistency. Underlying and potentially the bigger factor is a self-defining gap between the centralizers and legacy fragmented competitors that will be reinforced with increasing size and leverage.

The scalers: Alliant, Aon (AON), Arthur J. Gallagher (AJG), HUB, Lockton, Marsh & McLennan (MMC), Newfront, and USI.

Exhibit 25
Core Broker KPI Analysis
Three-Year Average (2022-2024)

Revenue Growth		Organic Growth		EBITDA Margin	
AJG	18%	BRO	10%	BRO	34%
BRO	16%	AJG	9%	AON	34%
AON	9%	MMC	8%	AJG	31%
MMC	7%	AON	6%	MMC	27%
WTW	3%	WTW	6%	WTW	27%
Mean	**11%**	**Mean**	**8%**	**Mean**	**31%**

Sources: FactSet, and company reports

Distribution Valuations: Compounding Capability Points to Long-Term Upside

This analysis lays out several factors that suggest strong potential for compounding at materially above-market averages. Keys factors include the increasing need for insurance as a safety net, higher-than-average inflationary factors related to weather volatility, and escalating litigation and the potential for substantial efficiency gains related to rising scale and better application of technology. The combination suggests that brokers at scale can compound free cash flow at 10% to 15% for the next 5 or even 10 years. This is impressive for an industry historically tied to GDP growth.

Our discounted cash flow highlights that this type of compounding is not factored into the current stock prices. On average, our mid- to high DCF scenarios suggests the stocks are undervalued between 25% to 40%. The assumptions on the models are relatively conservative with expected revenue growth rates averaging 5% to 8% from 2024 to 2029 and EBITDA margins expanding by an average of 100 to 150 basis points in the same time frame. The difference between our mid- to upper target is roughly an extra 100 basis point of margin expansion, which well within achievable range for brokers using scale to improve efficiency. The analysis is based on an exit multiple range of 17-19 times. This level is in line with today's valuations, although on the high side from a historic perspective. The increased market cap size and stable earnings consistency of the brokers suggest a higher multiple range could be warranted over the long term.

Bottom line: The DCF analysis highlights that brokers should deliver impressive returns to investors for years to come. See exhibit 4, on page 5, for a summary of the upside potential from our DCF analysis.

Arthur J. Gallagher

Our base-case DCF analysis implies a $396 share price (25% upside) predicated on a 12% revenue CAGR through 2029, a terminal adjusted EBITDA margin of roughly 34%, a discount rate of 8%, and a 17-times terminal EV/EBITDA multiple. Our revenue estimate assumes roughly 20% revenue growth in 2025 and 2026, driven by the AssuredPartners acquisition and a normalization to roughly 6.5% in 2027 through 2029. This reflects roughly 4% organic growth and a low-single-digit contribution from tuck-in acquisitions. Both assumptions could be slightly conservative; between 2011 and 2019 organic growth averaged roughly 5% and between 2018 and 2024 deals have contributed an average of 6% to annual revenue growth. Free cash flow should step up nicely in 2026 and beyond given accretion from large 2025 acquisitions (AssuredPartners and Woodruff Sawyer) and declining integration costs. Rising free cash flow could drive upside to our base-case M&A assumption. Our base-case margin estimate assumes roughly 40 basis points of annual expansion between 2027 and 2029 driven by continued operating leverage (between 2011 and 2019 annual margin expansion averaged 50 basis points). In comparison, our bull-case estimates assume margin reaches roughly 35% to 35.5% (50- to 70-basis-point annual expansion). The key to achieving this is sustained organic growth above 5%.

Exhibit 26
Arthur J. Gallagher & Co.
Discounted Cash Flow Analysis
(Dollars in millions, except per share)

	2023	2024	2025E	2026E	2027E	2028E	2029E
Total Revenue	**$9,915**	**$11,334**	**$13,756**	**$16,880**	**$17,955**	**$19,098**	**$20,312**
% growth	*18.3%*	*14.3%*	*21.4%*	*22.7%*	*6.4%*	*6.4%*	*6.4%*
Adj. EBITDAC	**$3,010**	**$3,558**	**$4,652**	**$5,604**	**$6,024**	**$6,474**	**$6,957**
Margin	*30.4%*	*31.4%*	*33.8%*	*33.2%*	*33.5%*	*33.9%*	*34.2%*
Change in Est. Acq Earnouts Payabl	(77)	(62)	(51)	(53)	(55)	(56)	(58)
Interest expense	(300)	(376)	(655)	(595)	(585)	(575)	(565)
Depreciation	(159)	(170)	(182)	(212)	(223)	(234)	(246)
Non-controlling interest	(6)	(5)	(8)	(6)	(7)	(7)	(8)
Pretax Income	$2,468	$2,946	$3,757	$4,737	$5,154	$5,601	$6,080
Effective Tax Rate	22%	23%	23%	24%	24%	24%	24%
Adj. Net Income	**$1,922**	**$2,274**	**$2,899**	**$3,592**	**$3,908**	**$4,247**	**$4,610**
% growth		*18%*	*27%*	*24%*	*9%*	*9%*	*9%*
Adjustments	956	804	1,151	1,277	950	950	800
GAAP Net Income	**$966**	**$1,470**	**$1,748**	**$2,315**	**$2,958**	**$3,297**	**$3,810**
% growth		*52%*	*19%*	*32%*	*28%*	*11%*	*16%*
Free Cash Flow:							
Net Income	$966	$1,470	$1,748	$2,315	$2,958	$3,297	$3,810
Plus: D&A	697	842	1,213	1,726	1,812	1,903	1,998
Plus: Chg. in estimated acq. earnout	377	26	27	14	14	14	14
Plus: Equity compensation	31	42	89	100	106	113	120
Less: Capital Expenditures	(194)	(142)	(178)	(220)	(260)	(267)	(274)
Less: Incremental WC	(68)	150	(218)	412	50	50	50
Plus: Non-Cash Adjustments	28	52	(14)	(40)	(30)	(30)	(30)
Levered Free Cash Flow	**$1,838**	**$2,441**	**$2,667**	**$4,307**	**$4,651**	**$5,080**	**$5,688**
Discount Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Factor			0.93	0.86	0.79	0.74	0.68
Discounted FCF			**$2,470**	**$3,692**	**$3,692**	**$3,734**	**$3,871**

Present Value Calculation

Terminal Value:	
Projected 2029 EBITDA	$6,957
EV/EBITDA Exit Multiple	17.0x
Discount Factor	0.68
Implied Terminal Enterprise Value	$80,488
Sum of Discounted Cash Flows	17,459
Less: Net Debt / (Cash)	(3,604)
Less: Minority Interest	34
Total Equity Valuation	$101,519
Implied Stock Price	**$396.40**
vs. Current	***25%***

Sensitivity Analysis

Discount	Exit Multiple		
Rate	17.0x	18.0x	19.0x
7.0%	$413.41	$438.88	$465.03
8.0%	$396.40	$420.72	$445.68
9.0%	$380.29	$403.52	$427.36

		Terminal Value		
Discount	5-Yr	EBITDA Margin Sensitivity		
Rate	Cash Flows	34.2%	34.8%	35.4%
7.0%	$17,982	$84,321	$90,845	$97,543
8.0%	$17,459	$80,488	$86,716	$93,110
9.0%	$16,959	$76,863	$82,811	$88,916

Sources: Company reports, FactSet, and William Blair Equity Research

Aon

Our base-case DCF analysis implies a $405 share price (15% upside) predicated on a 6% revenue CAGR through 2029, a terminal adjusted EBITDA margin of roughly 34%, a discount rate of 8%, and a 16.5-times terminal EV/EBITDA multiple. Our revenue estimate assumes organic growth normalizes over the next several years to roughly 4%, with a low-single-digit percent growth contribution from tuck-in deals primarily in its expanding middle-market P&C brokerage business. Our organic estimate is in line with Aon's historical growth but could be slightly conservative as management recently highlighted several levers—including increased producer hiring, new data analytics tools, and expansion of the enterprise client group engagement model—that it expects should support midsingle-digit or greater organic growth going forward. We expect free cash flow should rise to $4.4 billion in 2026, roughly 30% growth from 2025, and return to a low- to mid-20% best-in-class free cash flow margin among global broker peers. The key drivers are accretion from NFP, winding down of the NFP integration and 3x3 restructuring costs, and improved working capital. This should support increased deployment on repurchases and deals over the next several years. Over the next five years, we expect between 50 (base) and 70 (bull) basis points of annual margin expansion. Our bull case is relatively in line with management's expectations that annual margin expansion of 80 to 100 basis points is sustainable given scale leverage benefits from ABS.

Exhibit 27
Aon plc
Discounted Cash Flow Analysis
(Dollars in millions, except per share)

	2023	2024	2025E	2026E	2027E	2028E	2029E
Total Revenue	**$13,376**	**$15,698**	**$17,349**	**$18,458**	**$19,381**	**$20,350**	**$21,367**
% growth	*7.2%*	*17.4%*	*10.5%*	*6.4%*	*5.0%*	*5.0%*	*5.0%*
Adj. EBITDA	**$4,390**	**$5,122**	**$5,788**	**$6,284**	**$6,654**	**$7,045**	**$7,459**
Margin	*32.8%*	*32.6%*	*33.4%*	*34.0%*	*34.3%*	*34.6%*	*34.9%*
Adj. Operating Income	$4,223	$4,939	$5,600	$6,087	$6,449	$6,833	$7,238
Margin	*31.6%*	*31.5%*	*32.3%*	*33.0%*	*33.3%*	*33.6%*	*33.9%*
Interest income	31	67	32	32	33	34	35
Interest expense	(484)	(788)	(811)	(766)	(756)	(746)	(736)
Other income / (expense)	(136)	13	(80)	(80)	(80)	(80)	(80)
Pretax Income	$3,634	$4,231	$4,741	$5,273	$5,646	$6,041	$6,457
Effective Tax Rate	18%	20%	20%	20%	20%	20%	20%
Minority Interest	64	66	70	74	81	88	95
Adj. Net Income	**$2,899**	**$3,316**	**$3,723**	**$4,144**	**$4,517**	**$4,833**	**$5,166**
% growth		*14%*	*12%*	*11%*	*9%*	*7%*	*7%*
GAAP Net Income	**$2,628**	**$2,720**	**$3,201**	**$3,626**	**$4,417**	**$4,733**	**$5,066**
% growth		*4%*	*18%*	*13%*	*22%*	*7%*	*7%*
Free Cash Flow:							
Net Income	$2,628	$2,720	$3,201	$3,626	$4,417	$4,733	$5,066
Plus: D&A	256	686	932	938	976	1,015	1,055
Plus: Equity compensation	438	474	491	491	508	526	544
Less: Capital Expenditures	(252)	(218)	(227)	(227)	(235)	(243)	(251)
Less: Incremental WC	462	(63)	(559)	(421)	50	50	50
Plus: Non-Cash Adjustments	(349)	(782)	(177)	(177)	(100)	(100)	(100)
Levered Free Cash Flow	**$3,183**	**$2,817**	**$3,660**	**$4,230**	**$5,616**	**$5,980**	**$6,364**
Discount Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Factor			0.93	0.86	0.79	0.74	0.68
Discounted FCF			**$3,389**	**$3,627**	**$4,458**	**$4,396**	**$4,331**

Present Value Calculation

Terminal Value:	
Projected 2029 EBITDA	$7,459
EV/EBITDA Exit Multiple	16.5x
Discount Factor	0.68
Implied Terminal Enterprise Value	$83,758
Sum of Discounted Cash Flows	20,201
Less: Net Debt / (Cash)	16,302
Less: Minority Interest	270
Total Equity Valuation	$87,387
Implied Stock Price	**$404.68**
vs. Current	***15%***

Sensitivity Analysis

Discount Rate	Exit Multiple 16.5x	17.5x	18.5x
7.0%	$425.92	$457.96	$490.84
8.0%	$404.68	$435.26	$466.65
9.0%	$384.56	$413.76	$443.73

Discount Rate	5-Yr Cash Flows	Terminal Value EBITDA Margin Sensitivity 34.9%	35.5%	36.1%
7.0%	$20,800	$87,745	$94,663	$101,763
8.0%	$20,201	$83,758	$90,361	$97,138
9.0%	$19,628	$79,985	$86,291	$92,764

Sources: Company reports, FactSet, and William Blair Equity Research

Brown & Brown

Our base-case DCF analysis implies a $95 share price (13% downside) predicated on a 13% revenue CAGR through 2029, a terminal adjusted EBITDA multiple of roughly 36%, a discount rate of 8%, and a 17-times terminal EV/EBITDA multiple. Our revenue estimate assumes 24% growth through 2026 reflecting the Risk Strategies acquisition and a normalization to roughly 6.5% in 2027 through 2029 reflecting 4% organic growth and a low-single-digit percentage contribution from tuck-in deals. Free cash flow margin should return to the low- to mid-20% range by 2027 given Risk Strategies' accretion, integration costs beginning to wind down, and cost synergies. The latter suggest that our bull case margin estimate of roughly 37%, or 200 basis points of expansion over the next five years, is attainable. Brown expects $120 million in cost synergies by 2028 (a roughly 130-basis-point benefit), implying just 20 basis points of underlying annual margin expansion. Our bull case implies roughly 10% upside, predicated on a roughly 37% terminal EBITDA margin and a 19-times EV/EBITDA multiple.

Exhibit 28
Brown & Brown, Inc.
Discounted Cash Flow Analysis
(Dollars in millions, except per share)

	2023	2024	2025E	2026E	2027E	2028E	2029E
Total Revenue	**$4,257**	**$4,806**	**$5,802**	**$7,400**	**$7,896**	**$8,412**	**$8,949**
% growth	*18.6%*	*12.9%*	*20.7%*	*27.6%*	*6.7%*	*6.5%*	*6.4%*
Adj. EBITDAC	**$1,445**	**$1,690**	**$1,984**	**$2,604**	**$2,803**	**$3,011**	**$3,230**
Margin	*33.9%*	*35.2%*	*34.2%*	*35.2%*	*35.5%*	*35.8%*	*36.1%*
Depreciation	(40)	(44)	(52)	(68)	(70)	(72)	(74)
Amortization	(166)	(180)	(342)	(624)	(630)	(636)	(642)
Change in Est. Acq Earnouts Payabl	(22)	(2)	(5)	(12)	(12)	(13)	(13)
Interest Expense	(71)	(162)	(265)	(407)	(397)	(387)	(377)
Pretax Income	$1,146	$1,302	$1,320	$1,494	$1,694	$1,904	$2,124
Effective Tax Rate	24%	23%	24%	24%	24%	24%	24%
GAAP Net Income	**$870**	**$994**	**$998**	**$1,138**	**$1,290**	**$1,450**	**$1,618**
% growth		*14%*	*0%*	*14%*	*13%*	*12%*	*12%*
Adj. Net Income	**$927**	**$1,103**	**$1,262**	**$1,622**	**$1,779**	**$1,944**	**$2,117**
% growth		*19%*	*14%*	*29%*	*10%*	*9%*	*9%*
Free Cash Flow:			$4	$140	$152	$160	$168
Net Income	$870	$994	$998	$1,138	$1,290	$1,450	$1,618
Plus: D&A	206	224	394	692	700	708	716
Plus: Equity compensation	89	101	101	101	108	115	122
Less: Capital Expenditures	(69)	(82)	(59)	(80)	(83)	(86)	(89)
Less: Incremental WC	(26)	(105)	(59)	(5)	10	10	10
Plus: Non-Cash Adjustments	(130)	(40)	(137)	(164)	10	10	10
Levered Free Cash Flow	**$941**	**$1,092**	**$1,238**	**$1,682**	**$2,034**	**$2,206**	**$2,387**
Discount Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Factor			0.93	0.86	0.79	0.74	0.68
Discounted FCF			**$1,146**	**$1,442**	**$1,615**	**$1,622**	**$1,624**

Present Value Calculation

Terminal Value:	
Projected 2029 EBITDA	$3,230
EV/EBITDA Exit Multiple	17.0x
Discount Factor	0.68
Implied Terminal Enterprise Value	$37,369
Sum of Discounted Cash Flows	7,449
Less: Net Debt / (Cash)	12,179
Less: Minority Interest	20
Total Equity Valuation	$32,620
Implied Stock Price	**$95.40**
vs. Current	***-13%***

Sensitivity Analysis

Discount Rate	Exit Multiple 17.0x	18.0x	19.0x
7.0%	$101.25	$110.00	$118.97
8.0%	$95.40	$103.75	$112.31
9.0%	$89.85	$97.83	$106.01

Discount Rate	5-Yr Cash Flows	Terminal Value EBITDA Margin Sensitivity 36.1%	36.7%	37.3%
7.0%	$7,672	$39,148	$42,140	$45,209
8.0%	$7,449	$37,369	$40,225	$43,154
9.0%	$7,237	$35,686	$38,414	$41,211

Sources: Company reports, FactSet, and William Blair Equity Research

Marsh & McLennan

Our base-case DCF analysis implies a $224 share price (3% upside) predicated on a 6% revenue CAGR through 2029, a terminal adjusted EBITDA margin of roughly 28%, a discount rate of 8%, and a 16.5-times terminal EV/EBITDA multiple. Our revenue estimate assumes organic growth normalizes to roughly 4% (in line with the historical average) and tuck-in deals provide a low-single-digit growth contribution. We expect improved free cash flow generation in 2026 and beyond as McGriff integration costs fade. However, we expect free cash flow margin will remain in the high teens, below core broker peers given elevated drags from capital expenditures and changes in working capital. Over the next five years, we expect between 20 (base) and 50 (bull) basis points of annual margin expansion. While near-term margin faces pressure from lower fiduciary income (driven by declining short-term interest rates), our bull case appears reasonable considering that excluding fiduciary income, Marsh had roughly 70 basis points of annual margin expansion over the past 10 years.

Exhibit 29
Marsh & McLennan Companies, Inc.
Discounted Cash Flow Analysis
(Dollars in millions, except per share)

	2023	2024	2025E	2026E	2027E	2028E	2029E
Total Revenue	**$22,736**	**$24,458**	**$26,970**	**$28,523**	**$29,949**	**$31,446**	**$32,861**
% growth	*10.0%*	*7.6%*	*10.3%*	*5.8%*	*5.0%*	*5.0%*	*4.5%*
Adj. EBITDA	**$6,276**	**$6,917**	**$7,651**	**$8,151**	**$8,643**	**$9,163**	**$9,669**
Margin	*27.6%*	*28.3%*	*28.4%*	*28.6%*	*28.9%*	*29.1%*	*29.4%*
Adj. Operating Income	$5,906	$6,548	$7,330	$7,891	$8,375	$8,888	$9,387
Margin	*26.0%*	*26.8%*	*27.2%*	*27.7%*	*28.0%*	*28.3%*	*28.6%*
Interest Expense	(578)	(674)	(968)	(918)	(903)	(858)	(858)
Other Income	(19)	(13)	(223)	(239)	(234)	(229)	(224)
Pretax Income	$5,309	$5,861	$6,140	$6,734	$7,238	$7,801	$8,305
Effective Tax Rate	24%	24%	24%	24%	24%	24%	24%
Minority Interest	46	57	59	61	65	69	73
A-T Adjustments	79	80	220	236	236	236	236
Adj. Net Income	**$4,065**	**$4,449**	**$4,798**	**$5,262**	**$5,639**	**$6,060**	**$6,436**
% growth		*9%*	*8%*	*10%*	*7%*	*7%*	*6%*
Free Cash Flow:							
Net Income	$3,802	$4,117	$4,399	$4,845	$5,402	$5,823	$6,200
Plus: D&A	713	746	753	761	771	781	791
Plus: Equity compensation	363	368	390	410	430	452	472
Less: Capital Expenditures	(416)	(316)	(440)	(440)	(500)	(500)	(500)
Less: Incremental WC	(592)	(766)	(684)	(631)	(749)	(786)	(822)
Plus: Non-Cash Adjustments	(28)	(163)	(30)	(27)	0	0	0
Levered Free Cash Flow	**$3,842**	**$3,986**	**$4,388**	**$4,918**	**$5,355**	**$5,770**	**$6,141**
Discount Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Factor			0.93	0.86	0.79	0.74	0.68
Discounted FCF			**$4,063**	**$4,216**	**$4,251**	**$4,241**	**$4,180**

Present Value Calculation

Terminal Value:	
Projected 2029 EBITDA	$9,669
EV/EBITDA Exit Multiple	16.5x
Discount Factor	0.68
Implied Terminal Value	$108,581
Sum of Discounted Cash Flows	20,951
Less: Net Debt / (Cash)	18,925
Less: Minority Interest	203
Total Equity Valuation	$110,404
Implied Stock Price	**$224.07**
vs. Current	***3%***

Sensitivity Analysis

Discount Rate	Exit Multiple 16.5x	Exit Multiple 17.5x	Exit Multiple 18.5x
7.0%	$235.77	$254.76	$274.31
8.0%	$224.07	$242.19	$260.86
9.0%	$212.98	$230.29	$248.11

Discount Rate	5-Yr Cash Flows	Terminal Value EBITDA Margin Sensitivity 29.4%	30.0%	30.6%
7.0%	$21,548	$113,751	$123,105	$132,740
8.0%	$20,951	$108,581	$117,510	$126,708
9.0%	$20,379	$103,691	$112,218	$121,001

Sources: Company reports, FactSet, and William Blair Equity Research

Willis Towers Watson

Our base-case DCF analysis implies a $393 share price (29% upside) predicated on a roughly 5% revenue CAGR through 2029, a terminal adjusted EBITDA margin of roughly 29%, a discount rate of 8%, and a 15-times terminal EV/EBITDA multiple. Our revenue estimate is predicated on organic growth of 3% to 4% and modest contribution from acquisitions. With Tranzact divested, restructuring costs fading, and margin improving, we expect free cash flow generation should improve meaningfully over the next couple years, with potential for free cash flow margin to reach the low-20% range from 13% in 2024. Given incremental firepower from an earnout related to its reinsurance divestiture and capacity to lever up, the company is well positioned to pursue a larger strategic deal that would be accretive to our base-case DCF analysis.

Exhibit 30
Willis Towers Watson PLC
Discounted Cash Flow Analysis
(Dollars in millions, except per share)

	2023	2024	2025E	2026E	2027E	2028E	2029E
Total Revenue	**$9,483**	**$9,930**	**$9,640**	**$10,078**	**$10,532**	**$11,006**	**$11,501**
% growth	*7.0%*	*4.7%*	*-2.9%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*
Adj. EBITDA	**$2,430**	**$2,708**	**$2,649**	**$2,821**	**$2,963**	**$3,129**	**$3,305**
Margin	*25.6%*	*27.3%*	*27.5%*	*28.0%*	*28.1%*	*28.4%*	*28.7%*
Adj. Operating Income	$2,082	$2,378	$2,421	$2,583	$2,731	$2,887	$3,052
Margin	*22.0%*	*23.9%*	*25.1%*	*25.6%*	*25.9%*	*26.2%*	*26.5%*
Interest income / (expense)	(235)	(263)	(264)	(246)	(246)	(246)	(246)
Other income / (expense)	149	(260)	88	88	78	68	58
Other	(43)	360	(88)	(88)	(92)	(97)	(102)
Adj. Pretax Income	$1,953	$2,215	$2,157	$2,337	$2,471	$2,612	$2,762
Effective Tax Rate	21%	21%	21%	21%	21%	21%	21%
Minority Interest	9	10	40	40	41	42	43
Adj. Net Income	**$1,536**	**$1,730**	**$1,658**	**$1,800**	**$1,904**	**$2,057**	**$2,175**
% growth		*13%*	*-4%*	*9%*	*6%*	*8%*	*6%*
GAAP Net Income	**$1,064**	**($88)**	**$1,584**	**$1,726**	**$1,830**	**$1,983**	**$2,101**
% growth			*-1900%*	*9%*	*6%*	*8%*	*6%*
Free Cash Flow:							
Net Income	$1,064	($88)	$1,584	$1,726	$1,830	$1,983	$2,101
Plus: D&A	505	456	478	486	501	516	531
Plus: Equity compensation	125	121	134	134	139	144	149
Less: Capital Expenditures	(242)	(245)	(248)	(264)	(273)	(283)	(293)
Less: Incremental WC	(371)	(326)	97	264	100	100	100
Plus: Non-Cash Adjustments	22	1,349	(185)	(64)	0	0	0
Levered Free Cash Flow	**$1,103**	**$1,267**	**$1,860**	**$2,282**	**$2,297**	**$2,459**	**$2,587**
Discount Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Factor			0.93	0.86	0.79	0.74	0.68
Discounted FCF			**$1,722**	**$1,957**	**$1,823**	**$1,807**	**$1,761**

Present Value Calculation

Terminal Value:	
Projected 2029 EBITDA	$3,305
EV/EBITDA Exit Multiple	15.0x
Discount Factor	0.68
Implied Terminal Value	$33,735
Sum of Discounted Cash Flows	9,070
Less: Net Debt / (Cash)	3,803
Less: Minority Interest	81
Total Equity Valuation	$38,921
Implied Stock Price	**$392.55**
vs. Current	***29%***

Sensitivity Analysis

Discount	Exit Multiple		
Rate	15.0x	16.0x	17.0x
7.0%	$411.34	$443.04	$475.74
8.0%	$392.55	$422.81	$454.02
9.0%	$374.75	$403.65	$433.45

Discount	5-Yr	Terminal Value EBITDA Margin Sensitivity		
Rate	Cash Flows	28.7%	29.3%	29.9%
7.0%	$9,327	$35,341	$38,484	$41,726
8.0%	$9,070	$33,735	$36,735	$39,830
9.0%	$8,824	$32,216	$35,081	$38,036

Sources: Company reports, FactSet, and William Blair Equity Research

TWFG

Our base-case DCF analysis implies a $47 share price (34% upside) predicated on a 21% revenue CAGR through 2029, a terminal adjusted EBITDA margin of 22.9%, a 9.1% discount rate, and a 27.5-times terminal EV/EBITDA multiple. Our revenue estimate assumes low- to midteens organic growth can be sustained (in line with management's long-term target) and a mid- to high-single-digit percent growth contribution from tuck-in deals. The latter is readily achievable given TWFG's strong balance sheet (roughly $190 million net cash as of the first quarter of 2025) and solid free cash flow generation (free cash flow conversion has averaged roughly 90% adjusted EBITDA over the past few years, implying roughly $100 million of free cash flow generation over the next two years). Potential for cash deployment on a relatively larger deal for the corporate channel in the next couple years could add upside to our medium-term revenue and margin outlooks; corporate branches have higher margins than the agency-in-a-box branches. This could enable adjusted EBITDA margin to reach the roughly 23% to 24% range and support a couple turns of multiple expansion as embedded in our bull-case assumptions, which imply roughly 40% to 50% upside.

Exhibit 31
TWFG, Inc.
Discounted Cash Flow Analysis
(Dollars in millions, except per share)

	2023	2024	2025E	2026E	2027E	2028E	2029E
Total Revenue	**$173**	**$204**	**$247**	**$307**	**$368**	**$440**	**$523**
% growth	*12.4%*	*17.8%*	*21.0%*	*24.4%*	*20.2%*	*19.5%*	*18.8%*
Operating Income	$24	$32	$42	$51	$61	$77	$95
Margin	*14.0%*	*15.8%*	*16.9%*	*16.5%*	*16.6%*	*17.5%*	*18.2%*
Interest expense/(income)	1	(2)	(7)	(5)	(5)	(5)	(5)
Other non-operating income/(loss)	0	(0)	0	0	0	0	0
Pretax Income	$25	$30	$35	$46	$56	$72	$90
Effective Tax Rate	0%	5%	10%	10%	10%	10%	10%
GAAP Net Income	**$25**	**$29**	**$32**	**$41**	**$51**	**$65**	**$81**
Adj. Net Income	**$23**	**$34**	**$40**	**$48**	**$57**	**$70**	**$85**
% growth		*49%*	*20%*	*19%*	*19%*	*23%*	*22%*
Diluted Shares		56.2	56.3	56.6	56.6	57.0	57.5
Adj. EPS		**$0.60**	**$0.72**	**$0.85**	**$1.01**	**$1.23**	**$1.49**
Adj. EBITDA	**$31**	**$45**	**$54**	**$66**	**$82**	**$100**	**$120**
Margin	*18.1%*	*22.3%*	*21.8%*	*22.0%*	*22.3%*	*22.6%*	*22.9%*
Free Cash Flow:							
Net Income	$25	$29	$32	$41	$51	$65	$81
Plus: D&A	5	12	14	16	17	18	20
Plus: Equity compensation	0	2	4	4	4	4	5
Less: Capital Expenditures	(0)	(3)	(1)	(1)	(1)	(1)	(1)
Less: Incremental WC	(1)	(3)	4	2	2	2	2
Plus: Non-Cash Adjustments	1	1	1	1	1	1	1
Levered Free Cash Flow	**$30**	**$37**	**$54**	**$63**	**$74**	**$89**	**$108**
Discount Rate	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Discount Factor			0.92	0.84	0.77	0.71	0.65
Discounted FCF			**$50**	**$53**	**$57**	**$63**	**$70**

Present Value Calculation

Terminal Value:	
Projected 2029 Adj. EBITDA	$120
EV/EBITDA Exit Multiple	27.5x
Discount Factor	0.65
Implied Terminal Value	$2,149
Sum of Discounted Cash Flows	294
Less: Debt	5
Plus: Cash	196
Total Equity Valuation	$2,634
Implied Stock Price	**$46.84**
vs. Current	***34%***

Sensitivity Analysis

Discount Rate	Exit Multiple 27.5x	28.5x	29.5x
8.0%	$48.80	$51.16	$53.58
9.0%	$46.84	$49.09	$51.41
10.0%	$44.99	$47.14	$49.35

Discount Rate	5-Yr Cash Flows	Terminal Value EBITDA Margin Sensitivity 22.9%	23.4%	23.9%
8.0%	$302	$2,250	$2,383	$2,519
9.0%	$294	$2,149	$2,276	$2,406
10.0%	$285	$2,053	$2,174	$2,298

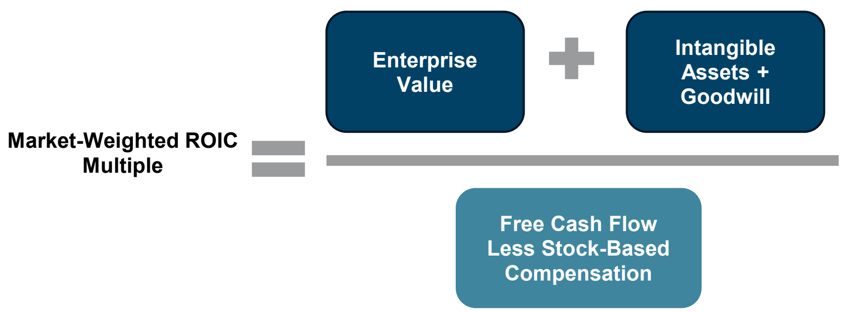
Sources: Company reports, FactSet, and William Blair Equity Research

Valuation Construction

For investors to better encapsulate varying free cash flow performance and to level set for differences among companies highlighted in the previous section, we believe using traditional measures such as cash P/E for comparing and benchmarking valuation is becoming more challenging. As a result, we suggest investors use a market-weighted return on invested capital (MWROIC) multiple. We calculate MWROIC as the sum of 1) enterprise value and 2) goodwill and intangible assets divided by 3) free cash flow less stock-based compensation. The MWROIC encapsulates brokers' ability to efficiently grow and compound free cash.

For the numerator, our approach combines a market-based measure of value (enterprise value) with intangible assets and goodwill that reflect the strain and investment capacity involved with acquisitions. We believe including the latter is especially relevant for comparing companies that have greater reliance on consolidation versus organic growth. For the denominator, we use free cash flow (operating cash flow less capital expenditures) and further subtract noncash stock-based compensation expense. Free cash flow provides a clearer view of earnings inclusive of the various accounting add-backs for items such as merger integration. By further subtracting stock-based compensation, which while noncash, is a real, recurring business expense, we believe the denominator better reflects the true earnings power of a company, representing its capacity to reinvest in the business or return capital to shareholders

Exhibit 32
Insurance Brokers
Market Weighted Return on Invested Capital Formula



Source: William Blair Equity Research

Our analysis finds that there is a smaller disparity in the median MWROIC multiples of core brokers and alternative brokers relative to traditional valuation multiples such as cash P/E. For example, in 2025, we estimate the median MWROIC multiple of the alternative brokers is 44 times, a roughly 3% premium to the core brokers at 42 times. In comparison, using traditional valuation multiples, the alternative brokers, on average, trade at a premium closer to 30% to 40%. This suggests the alternative brokers, in general, are not as expensive as they appear.

Exhibit 33
Insurance Brokers
Valuation Comparison

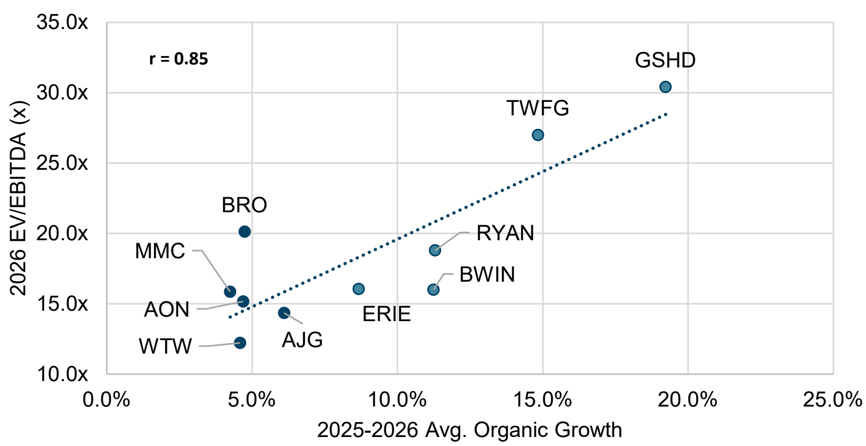
Company	Ticker	Rating	Price	Market-Weighted Capital ($M)	MWROIC 2025	MWROIC 2026	EV/EBITDA 2025	EV/EBITDA 2026	Cash P/E 2025	Cash P/E 2026	P/FCFE 2025	P/FCFE 2026
Core Brokers												
Arthur J. Gallagher	AJG	O	$317.73	$107,322	41.6x	29.2x	16.8x	14.0x	28.6x	23.5x	30.5x	21.6x
Brown & Brown	BRO	M	$109.58	$48,885	45.1x	38.2x	21.6x	19.9x	26.3x	23.9x	30.2x	25.9x
Aon	AON	O	$352.73	$115,561	42.9x	29.6x	16.2x	14.9x	20.9x	18.4x	23.9x	17.3x
Marsh McLennan	MMC	M	$216.97	$156,051	41.0x	34.9x	16.7x	15.7x	22.6x	20.8x	25.5x	21.9x
Willis Towers Watson	WTW	M	$304.50	$44,935	29.6x	20.6x	13.1x	12.3x	18.2x	15.9x	18.3x	13.0x
Average					**40.1x**	**30.5x**	**16.9x**	**15.4x**	**23.3x**	**20.5x**	**25.7x**	**20.0x**
Median					**41.6x**	**29.6x**	**16.7x**	**14.9x**	**22.6x**	**20.8x**	**25.5x**	**21.6x**
Alternative Brokers & Distributors												
Baldwin Group	BWIN	M	$42.70	$8,950	N/A	89.9x	18.9x	16.1x	24.0x	19.4x	N/A	28.3x
Erie Indemnity	ERIE	O	$340.45	$15,567	35.0x	29.5x	15.8x	15.4x	27.0x	23.4x	35.6x	30.0x
Goosehead Insurance	GSHD	M	$102.40	$4,094	133.2x	91.5x	38.6x	31.3x	57.3x	46.2x	62.9x	48.9x
Ryan Specialty	RYAN	O	$67.58	$25,951	50.7x	37.3x	22.2x	18.7x	32.5x	26.2x	31.1x	23.5x
TWFG	TWFG	O	$35.00	$1,850	34.0x	29.3x	33.0x	27.0x	48.7x	41.3x	36.0x	31.1x
Average					**63.2x**	**55.5x**	**25.7x**	**21.7x**	**37.9x**	**31.3x**	**41.4x**	**32.3x**
Median					**42.8x**	**37.3x**	**22.2x**	**18.7x**	**32.5x**	**26.2x**	**35.8x**	**30.0x**
Median Disparity - Alternative vs. Core					**3%**	**26%**	**33%**	**26%**	**44%**	**26%**	**41%**	**39%**

Sources: Company reports, FactSet, and William Blair Equity Research

Superior Organic Growth Drives Stock Outperformance

While alternative brokers' business models are relatively heterogenous, the group's common attribute is superior organic growth relative to the core brokers. Over the next two years, we estimate average organic growth in the mid- to high teens for the alternative brokers, versus midsingle digits for the core brokers. Our analysis finds a high correlation between organic growth and EV/EBITDA multiples, suggesting that brokers with higher organic growth garner higher valuations.

Exhibit 34
Insurance Brokers
Organic Growth vs. EV/EBITDA Multiple

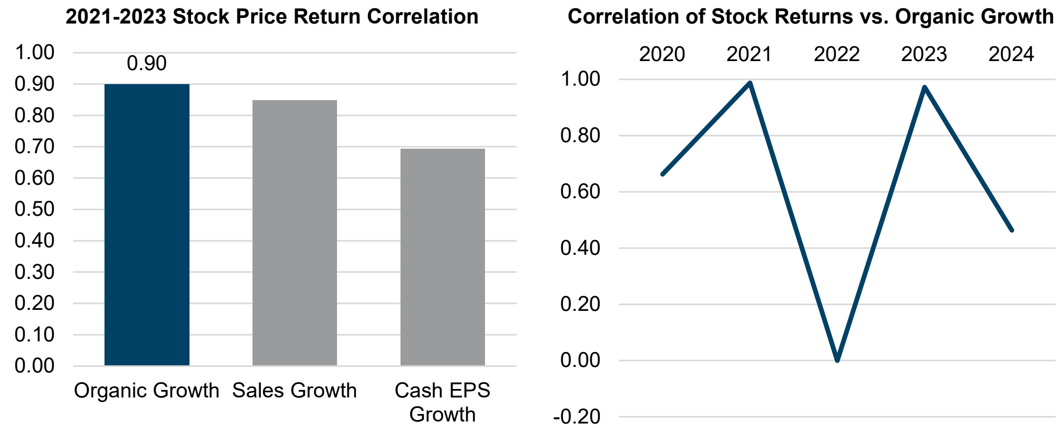


GSHD reflects core revenue growth.

Sources: Company reports, FactSet, and William Blair Equity Research

We believe organic growth is a key driver of stock performance and valuation. Over the past three years, we find that organic growth has the highest correlation with stock performance compared to other drivers such as total sales growth and adjusted EPS growth. That said, higher organic growth, in isolation, is not the only factor to consider. The consistency of organic growth and ability to maintain or improve margin is equally as important. We believe a company's ability to sustain relatively higher rates of organic growth are a sign of a superior business model that investors will reward.

Exhibit 35
Insurance Brokers



Sources: FactSet, and company reports

The prices of the common stock of other public companies mentioned in this report follow (prices as of 6/27):

Allstate Corp (Outperform)	$195.76
eHealth Inc (Market Perform)	$4.18
Federal National Mortgage Association	$9.73
GoHealth Inc (Outperform)	$5.85
HCI Group Inc (Outperform)	$151.08
Porch Group Inc	$11.79
Progressive Corp (Outperform)	$263.99
SelectQuote Inc	$2.30

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Market Perform (Hold)	28	Market Perform (Hold)	2
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William Blair

Equity Research Directory

John Kreger, Partner Director of Research +1 312 364 8612
Kyle Harris, CFA, Partner Operations Manager +1 312 364 8230

Scott Hansen, Partner Associate Director of Research +1 212 245 6526

CONSUMER

Sharon Zackfia, CFA, Partner +1 312 364 5386
Group Head–Consumer
Lifestyle and Leisure Brands, Restaurants, Automotive/E-commerce

Jon Andersen, CFA, Partner +1 312 364 8697
Consumer Products

Phillip Blee, CPA +1 312 801 7874
Home and Outdoor, Automotive Parts and Services, Discount and Convenience

Dylan Carden +1 312 801 7857
E-commerce, Specialty Retail

ECONOMICS

Richard de Chazal, CFA +44 20 7868 4489

ENERGY AND POWER TECHNOLOGIES

Jed Dorsheimer +1 617 235 7555
Group Head–Energy and Sustainability
Generation, Efficiency, Storage

Tim Mulrooney, Partner +1 312 364 8123
Sustainability Services

FINANCIAL SERVICES AND TECHNOLOGY

Adam Klauber, CFA, Partner +1 312 364 8232
Group Head–Financial Services and Technology
Financial Analytic Service Providers, Insurance Brokers, Property & Casualty Insurance

Andrew W. Jeffrey, CFA +1 415 796 6896
Fintech

Cristopher Kennedy, CFA +1 312 364 8596
Fintech, Specialty Finance

Jeff Schmitt +1 312 364 8106
Wealthtech, Wealth Management, Capital Markets Technology

GLOBAL SERVICES

Tim Mulrooney, Partner +1 312 364 8123
Group Head–Global Services
Commercial and Residential Services

Andrew Nicholas, CPA +1 312 364 8689
Consulting, HR Technology, Information Services

Trevor Romeo, CFA +1 312 801 7854
Staffing, Waste and Recycling

HEALTHCARE

Biotechnology

Matt Phipps, Ph.D., Partner +1 312 364 8602
Group Head–Biotechnology

Sami Corwin, Ph.D. +1 312 801 7783

Lachlan Hanbury-Brown +1 312 364 8125

Andy T. Hsieh, Ph.D., Partner +1 312 364 5051

Myles R. Minter, Ph.D., Partner +1 617 235 7534

Healthcare Technology and Services

Ryan S. Daniels, CFA, Partner +1 312 364 8418
Group Head–Healthcare Technology and Services
Healthcare Technology, Healthcare Services

Brandon Vazquez, CFA +1 212 237 2776
Dental, Animal Health, Medical Technology

Life Sciences

Matt Larew, Partner +1 312 801 7795
Life Science Tools, Bioprocessing, Healthcare Delivery

Andrew F. Brackmann, CFA +1 312 364 8776
Diagnostics

Max Smock, CFA +1 312 364 8336
Pharmaceutical Outsourcing and Services

INDUSTRIALS

Brian Drab, CFA, Partner +1 312 364 8280
Co-Group Head–Industrials
Advanced Manufacturing, Industrial Technology

Ryan Merkel, CFA , Partner +1 312 364 8603
Co-Group Head–Industrials
Building Products, Specialty Distribution

Louie DiPalma, CFA +1 312 364 5437
Aerospace and Defense, Smart Cities

Ross Sparenblek +1 312 364 8361
Diversified Industrials, Robotics, and Automation

TECHNOLOGY, MEDIA, AND COMMUNICATIONS

Jason Ader, CFA, Partner +1 617 235 7519
Co-Group Head–Technology, Media, and Communications
Infrastructure Software

Arjun Bhatia, Partner +1 312 364 5696
Co-Group Head–Technology, Media, and Communications
Software

Dylan Becker, CFA +1 312 364 8938
Software

Louie DiPalma, CFA +1 312 364 5437
Government Technology

Jonathan Ho, Partner +1 312 364 8276
Cybersecurity, Security Technology

Sebastien Naji +1 212 245 6508
Infrastructure Software, Semiconductor and Infrastructure Systems

Maggie Nolan, CPA, Partner +1 312 364 5090
IT Services

Jake Roberge +1 312 364 8056
Software

Ralph Schackart III, CFA, Partner +1 312 364 8753
Internet and Digital Media

Stephen Sheldon, CFA, CPA, Partner +1 312 364 5167
Vertical Technology – Real Estate, Education, Restaurant/Hospitality

EDITORIAL AND SUPERVISORY ANALYSTS

Steve Goldsmith, Head Editor and SA +1 312 364 8540
Katie Anderson, Editor and SA +44 20 7868 4451
Audrey Majors, Editor and SA +1 312 364 8992
Beth Pekol Porto, Editor and SA +1 312 364 8924
Lisa Zurcher, Editor and SA +44 20 7868 4549