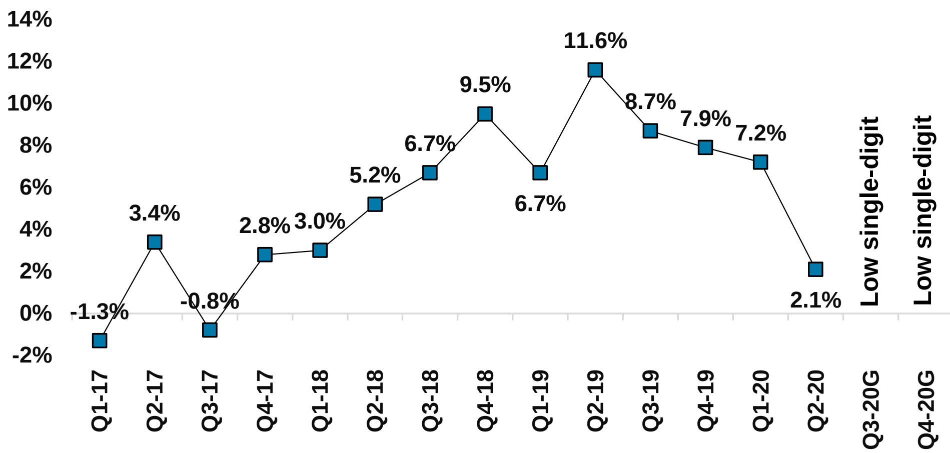
Truist's Q2 adds to broker optimism



Yesterday, Truist Insurance reported its Q2 results providing the first view on broker earnings season, and more broadly, a read on P&C market dynamics.

Truist reported 2.1% organic growth (down from 7.2% in Q1) versus the guidance range of 0-2%, as the contraction in new business volume of 4% was more than offset by higher rates, stronger retention and relatively stable exposure.

The growth outlook for the balance of 2020 was updated from "0-2%" to "low single-digit", which we read as an upgrade. The results confirm the impact of the crisis is likely milder for insurance intermediaries than initially anticipated. Truist's observations resemble AJ Gallagher's comments at its investor day in June.

We view the results, along with AJ Gallagher's investor day and the reversal of pay cuts at Aon, as a leading indicator for better-than-expected Q2 brokers results and likely guidance upgrades. Recall, most brokers cited their expectations for flat to negative growth environment in Q2 and Q3.

Continuing the Q1 collective broker rhetoric, Truist highlighted the hardening market as a strong counter-weight to the recessionary environment.

Notably, the broker reported record net income with significantly improved margins despite the slowing growth, which it related to seasonality factors and pricing. However, we would note that all brokers shared confidence for stable or even higher margins in this recessionary period, which points to substantial benefits from forced expense cuts (e.g. T&E).

The improving profitability amid slowing growth is likely to be normal phenomenon for brokers and a solid tailwind in the near term. However, it is important to mind the non-recurring nature of the expense cuts that will unwind as and when growth improves, perhaps with some catch-up cap-ex drag due to deferred investments.

Additionally, if the nearer term growth picture looks less dire than appeared possible at the height of the pandemic, the medium term view looks perhaps less clear. Part of the reason growth has been better than expected has been a strong economic bounce since re-opening. However, the consequence appears to be cases and death rates spiking in many states. Predicting the path of a pandemic is challenging, but there is certainly a risk that the crisis may prove to be less acute than originally feared, but also longer in duration. In that sense, it is important to recognize that strong Q2 numbers do not represent an emphatic "all clear". More details below.

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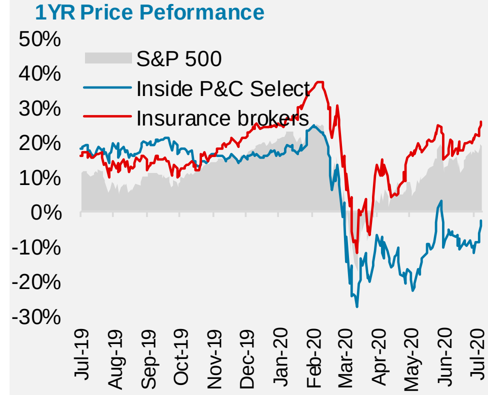
Composite	YTD px chg.	P/B
Large comm.	(21.4)%	0.9x
Regional	(26.3)%	1.4x
Specialty	(19.2)%	1.6x
Personal	1.5%	1.9x
Bermuda	(21.7)%	1.1x
Florida	(27.3)%	0.9x
Brokers	1.3%	-
IPC Select	(16.5)%	1.2x
S&P 500 Fin.	(21.5)%	-
S&P 500	(0.5)%	-

1YR Price Peformance



Truist Q2: Another data point on broker optimism

- ***Organic growth was 2.1% versus 7.2% in Q1***
- ***P&C pricing is up 5% versus 4.5% in Q1 with bullish forward outlook***
- ***EBITDA margin is up 140bps to 30.2%***

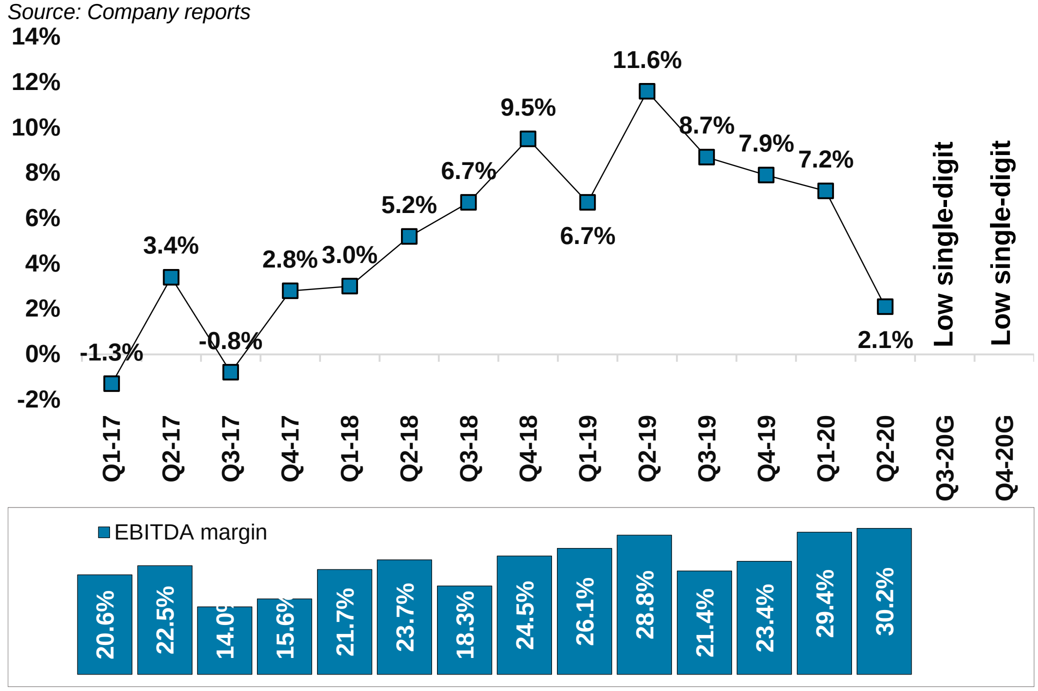
Truist reported 2.1% organic growth, the lowest in 11 quarters, primarily hit by the 4% contraction in new business volume (down from double digit increases in recent quarters).

However, the result was better than 0-2% guidance range provided in Q1, as the broker continued to benefit from higher P&C rates, as well as higher retention and relatively stable exposure unit declines as the broker saw a limited number of business failures.

For the remainder of 2020, Truist sees low single-digit organic growth, a change in language from the 0-2% telegraphed in Q1, which we read as an upgrade.

Truist organic growth and EBITDA margin over time

Source: Company reports



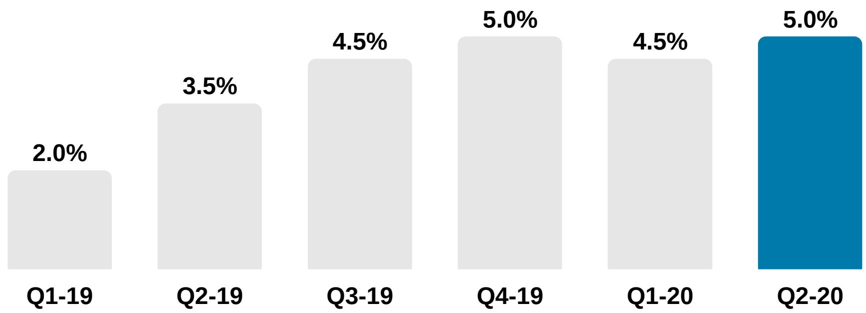
Chris Henson **Head of Banking and Insurance**	*"Our overall outlook is much more positive because of the price firming I just talked about. And we also saw in the quarter more stable exposure units than we expected. We just did not see the business failures. It was just a limited number of business failures. And also the growing excess and surplus lines volume, the shift from retail to wholesale".*

On margin, Truist reported 140bps EBITDA margin expansion to 30.2%, the highest level in a long time, which points to substantial benefits from forced expense cuts (e.g. T&E). We expect the similar pattern on other reporters later in the earnings season, provided all brokers expressed commitment to maintain strong margins through this period.

On pricing, Truist rate disclosure was in line with the message prevailing in the market. In Q2, the pricing environment hardened, and further rate increases through 2020 and into 2021 is the broker's base case scenario. While the language surrounding rates is very bullish, numerical depiction suggests a plateauing of pricing. That said, forward looking commentary signaled expectations of continued hardening.

Truist P&C rate change disclosure

Source: Company reports



Chris Henson **Head of Banking and Insurance**	*"Pricing is really robust. So what we had in the last quarter was up in the 4.5% range, closer to 5% this quarter. And it's anticipated we'll continue to see acceleration for the remainder of this year and into '21."* *"You really are seeing upward momentum. I think we are going to continue to see all coverage types or up, except workers' comp. All sizes were up at least in the sort of 4.5%, 5.5% range. You saw things like D&O, up 9.3%; liability -- perpetual liability up 6%, 7%; business interruption, up 6%. I mean, those are big numbers."*

This research report was written by Insider Publishing's Research team which includes Gavin Davis, Gianluca Casapietra, and Dan Lukpanov.