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Ryan Specialty Holdings, Inc. (RYAN)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Patrick G. Ryan
Founder, Chairman & Chief Executive Officer, Ryan Specialty Holdings, Inc.

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.

Timothy W. Turner
Chairman & Chief Executive Officer-RT Specialty & President & Director, Ryan Specialty Holdings, Inc.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

OTHER PARTICIPANTS

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Grace H. Carter
Analyst, BofA Securities, Inc.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Meyer Shields
Analyst, KBW Research

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Brian Meredith
Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for joining us today for Ryan Specialty Holdings Second Quarter 2024 Earnings Conference Call. In addition to this call, the company filed a press release with the SEC earlier this afternoon, which has also been posted to its website at ryanspecialty.com.

On today's call, management's prepared remarks and answers to your questions may contain forward-looking statements. Investors should not place undue reliance on any forward-looking statement. These statements are based on management's current expectations and beliefs and are subject to risks and uncertainties that could cause actual results to differ materially from those discussed today. Listeners are encouraged to review the more detailed discussion of these risk factors contained in the company's filings with the SEC.

The company assumes no duty to update such forward-looking statements in the future except as required by law. Additionally, certain non-GAAP financial measures will be discussed on this call and should not be considered in isolation or as a substitute the financial information presented in accordance with GAAP. Reconciliation of these non-GAAP financial measures to the most closely comparable measures prepared in accordance with GAAP are included in the earnings release, which is filed with the SEC and available on the company's website.

With that, I'd now like to turn the call over to the Founder, Chairman and Chief Executive Officer of Ryan Specialty, Pat Ryan.

Patrick G. Ryan
Founder, Chairman & Chief Executive Officer, Ryan Specialty Holdings, Inc.

Good afternoon and thank you for joining us to discuss our second quarter results as well as today's announcement of our agreement to acquire US Assure. We have included a supplemental presentation on our Investor Relations website regarding the acquisition, which we will refer to during today's call. With me on today's call is our President, Tim Turner; our CFO, Jeremiah Bickham; and our CEO of Underwriting Managers, Miles Wuller. Also with us is our Chief Accounting Officer and Incoming CFO, Janice Hamilton; and our Director of Investor Relations, Nick Mezick.

Our second quarter continued our strong momentum, excellent top and bottom line results, reflecting our formidable value proposition, differentiated talent, and niche specialization. Total revenue grew 18.8% year-over-year to $695 million, driven by organic growth of 14.2% on top of the strong growth we posted in the second quarter 2023. Adjusted EBITDAC grew 27.6% to $248 million. Adjusted EBITDAC margin expanded 240 basis points to 35.6%, driven by another quarter of strong revenue growth, savings from ACCELERATE 2025, and underlying margin improvement in our business. Adjusted diluted EPS grew 28.9% to $0.58 per share.

Now, turning to slide 3 of our supplemental presentation, today we announced an agreement to acquire US Assure, a leading program focused exclusively on builder's risk insurance. We're excited about this transaction for several reasons. We're significantly expanding Ryan Specialty's broker relationships and total addressable market. US Assure meaningfully increases our footprint in the program segment of delegated underwriting authority.

We're pleased to be executing on our M&A focus in this area as we see it as ripe for consolidation. We are deepening our capabilities in attractive markets. We will enhance our capability in the attractive SME segment of the builder's risk and construction market as more broadly is a major and fast-growing component of US GDP. We're adding a strong and valuable solution set. Having placed business online for over 25 years, US Assure's distribution portal is a unique asset, offering an efficient and cost-effective tool that provides a one-stop solution accessed by over 20,000 retailers. This innovative offering provides fully automated, rapid, and seamless quote, bind, and issue capabilities, which has yielded high retention with brokers and agents.

We see further optionality to distribute more product and drive deeper engagement through these portals. We expect to make a great business even better. US Assure has a long and enviable track record of strong growth and robust margins, driven by high client retention, efficient distribution via its tech-enabled online portal as well as consistently profitable underwriting results for the capacity provider. We believe we can further enhance this business through our track record of productivity improvements, including expanded solutions, addition of new brokers as well as product innovation.

For many quarters, we've discussed M&A as our top capital allocation priority. We've consistently noted that we only move forward with an acquisition when all our criteria for M&A are met. A deal must be a strong cultural fit, strategic and accretive. US Assure fits these criteria perfectly and aligns with our mission of providing innovative industry-leading solutions for insurance brokers, agents, and carriers. We will be acquiring US Assure for $1.075 billion, which represents approximately 12.8 times trailing 12-month EBITDA. There's also contingent consideration of up to $400 million. This transaction will be immediately accretive to adjusted EPS, which Jeremiah will further address shortly.

With that, I'm going to turn it over to Miles to discuss the business in more detail. Miles?

Miles Wuller

President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.

Thank you very much, Pat. I want to echo Pat's comments on how excited we are to execute on our M&A strategy.

Turning to slide 4, delegated authority continues to be an enormous long-term opportunity and one of the core reasons for Ryan Specialty's founding. We have focused intently on building Ryan Specialty as a home where the best underwriters are empowered to innovate. We approach delegated authority through multiple avenues, each a touch point for Ryan Specialty to deliver value to carriers along the entire continuum of binding, programs, and MGUs.

Our programs business targets niche industry verticals with a defined product set with typically smaller average premiums in our MGUs. This is the most significant enhancement to our program business since adding our All Risks National Programs unit in 2020 and adds what we believe is one of the largest independent programs. We believe there's a long runway for consolidation and innovation in the programs segment.

With US Assure, our underwriting management specialty will now make up 28% of Ryan Specialty's total revenue and coupled with binding authority takes delegated authority to 41%, highlighting the diversification of our platform. We will be larger, more diversified, and better equipped to provide innovative, industry-leading solutions to our insurance brokers, agents, and carriers.

Turning to slide 5, US Assure has been in business since 1977 and has a remarkable track record of success, which is a testament to the strong leadership of CEO, Ty Petway; President, Alan Ferguson; and CFO, Selena Breedlove.

Culturally, we've been extremely impressed with everyone at US Assure, and we're thrilled to welcome them all to the Ryan Specialty family. US Assure targets builder's risk and construction projects in the SME market, specifically sub-$50 million in hard costs and writes on admitted paper provided by Zurich, with whom they've had a 44-year relationship.

The business has an extremely valuable brand and is considered a first call for builder's risk in the SME segment as is favored for its efficiency, responsiveness, and targeted industry solutions. US Assure has a long track record of servicing over 20,000 existing brokerage relationships, many of whom will be new relationships to Ryan Specialty. We expect these additional relationships will drive significant new submission flow into our ecosystem.

US Assure digitally services the majority of their policies through their highly efficient portal, a hallmark of their business for over 25 years. US Assure has delivered strong growth consistent with Ryan Specialty's target of double-digit organic growth. Underpinning its strong stand-alone revenue growth is their diversified product mix across residential and commercial construction as well as remodeling with a 50-state reach.

Turning to slide 6, as Pat outlined, this acquisition is a strategic fit for many reasons. First, US Assure has connectivity with a broader set of SME-focused retail brokers where Ryan Specialty can drive deeper, multi-faceted relationships to expand our total addressable market into the SME admitted segment and perfectly complement Ryan Specialty's existing builder's risk and construction capabilities, which tend to focus on larger projects on a non-admitted basis. The acquisition also expands our relationship with Zurich, a leading global insurer.

Second, the acquisition deepens our capabilities in attractive markets. The construction industry has strong macro tailwinds given domestic housing dynamics and secular growth factors such as the undersupply of homes, the age of national housing stock, and new home inventories remaining modest by historical standards.

Third is their unique distribution portal. Over the last 25 years, the team has developed an online portal with unmatched ease and efficiency. A fully automated quote, bind, and issuance system drives high client retention. Additionally, US Assure delivers to us valuable new product capabilities and further enhances our value proposition to clients and trading partners.

US Assure has significant knowledge of builder's risk insurance in the SME segment, which is highly valued by brokers and speaks to how we are continuing to enhance our intellectual capital.

And fourth, with a history of strong double-digit growth, a diversified product mix with a 50- state reach, secular growth factors, and our track record of productivity improvements, we're confident in the long-term growth of this business. This transaction will be immediately accretive to adjusted EPS. For the full year 2024, we expect US Assure to generate $123 million of revenue with a long-term sustainable margin in the mid-60s.

Turning to slide 7, US Assure is poised to thrive within our ecosystem. We see numerous levers to sustain and improve US Assure's growth. We believe we can further enhance this business through our track record of productivity improvements, including expanded solutions, the addition of new brokers as well as product innovation.

We believe there are substantial opportunities to find E&S solutions for existing submissions that were declined by the admitted market and believe our capabilities in placing difficult risks will bear fruit. We can leverage each firm's vast and complementary network by going deeper with key brokers and agents. We're working to develop the new retail broker relationships. We will drive more submission flow into US Assure as our team will find the best solutions for their retail clients.

We also expect to develop new products and innovate on behalf of these SME builder's risk insureds. We see opportunities to partner with RSUM's existing construction MGU, technical risk underwriters in order to assist US Assure in implementing these incremental solutions for the SME segment. We have a long-standing track record of innovation and believe the construction industry has all the hallmarks we look for to develop successful delegated authority solutions. Given these levers, we expect double-digit growth moving forward and we are confident in the long-term growth of this business.

With that, I'll turn it back to Pat.

Patrick G. Ryan

Founder, Chairman & Chief Executive Officer, Ryan Specialty Holdings, Inc.

Thank you, Miles. Furthering our delegated authority strategy, we're also pleased to announce a strategic relationship with MagMutual, a leader in the physicians and hospital professional liability segment of the health care market where we will be joining our health care practices together. Our health care MGU, Sapphire Blue, will become MagMutual's exclusive underwriter for senior living and allied health care risks. The collective experience, expertise, and brand recognition of our two organizations is unique in the health care liability marketplace. Together, we will expand our health care liability products and offerings to better serve our clients.

Turning to another recent announcement, we were pleased to form an exclusive distribution partnership with Private Client Select, or PCS, an MGU focused on high and ultra-high net worth homeowners insurance, primarily owned by AIG and Stone Point. This exclusive distribution partnership with PCS will further enhance our national wholesale brokers business and the superior service that Ryan Specialty provides to the high net worth-focused retail brokers that we serve. PCS' strategic use of E&S paper creates flexible solutions to address coverage gaps in the high and ultra-high net worth homeowners segment of the residential market. We look forward to working closely with PCS and AIG to deliver new products and services to this highly coveted segment of the market.

It has clearly been an exciting time for Ryan Specialty, particularly with the leadership succession plan previously announced that goes into effect October 1. Tim Turner will become our new CEO. Jeremiah Bickham will be promoted to President and Janice Hamilton will be promoted to Chief Financial Officer. I will assume the role of Executive Chairman.

Succession planning is a matter that has been a top priority, both myself and the board. We view attracting and developing top talent as a core competency and central to our long-term success. We're thrilled to promote from within, ensuring continuity with leaders who are ready for their new roles and are emblematic of the depth of talent we have successfully cultivated.

Tim has established himself as an insurance industry leader with an uncanny ability to foresee market trends. Since joining Ryan Specialty at its founding in 2010, he's been critical to our success, particularly in creating and developing RT Specialty and quickly allowed the business to become one of the top wholesale distributors specialty insurance in the country.

Tim has been integral in the development of Ryan Specialty over the years, having the vision to align RT Specialty with the deep product set at Ryan Specialty Underwriting Managers. He has the support of our brokers, underwriters, and the entire Ryan Specialty team. The board and I are confident that he will be an excellent CEO.

Jeremiah and Janice's promotions represent a seamless transition as these are well-respected leaders who know our strategy and culture well. Jeremiah has shown outstanding leadership as well as financial and operational expertise since joining us in 2011. Janice, with over 20 years' experience in the insurance industry, has proven her keen financial acumen and understanding of our business having rejoined our firm over six years ago.

Their promotions are well-deserved and reflect our commitment to developing talent within the organization. I look forward to partnering with them when I move into my new role as Executive Chairman and continue leading our board of directors.

I will continue to play an active role on our executive team and will now be emphasizing the coach and player coach, which will further empower Tim, Jeremiah, and Janice.

Ryan Specialty is stronger than ever, as evidenced by our outstanding first half 2024, sustainable secular factors, and our unique competitive position. This succession plan comes as we pass the three-year anniversary of our IPO, have clear positive momentum, and a roster of world-class talents. This was the right time to put the pieces in place for our long-term success. The new leadership team is more than ready to continue successfully delivering innovative solutions to our clients, generating industry-leading organic growth, executing on our M&A strategy, increasing profitability, and delivering additional value to our shareholders.

I'm very pleased to turn the call over to Tim. Tim?

Timothy W. Turner

Chairman & Chief Executive Officer-RT Specialty & President & Director, Ryan Specialty Holdings, Inc.

Thank you very much, Pat. I am honored to become CEO of this great firm in October and to lead our talented teams in delivering value for our clients, trading partners, and shareholders. It has been a privilege to work alongside Pat and learn from his leadership since Ryan Specialty was founded. Pat is a true pioneer in the insurance industry. His commitment to innovation, execution, and exceptional outcomes for clients and trading partners is unparalleled. Under Pat's leadership, Ryan Specialty has grown into an extraordinary company with a dynamic and differentiated business model.

Looking ahead, we will continue to execute our strategy, which remains unchanged. We will stay focused on delivering innovative solutions to our clients, generating industry-leading organic growth, executing on our M&A strategy, increasing profitability, and delivering additional value to our shareholders. I am pleased that Pat will remain regularly involved and will continue to be a valuable resource on the strategic direction of the firm. And along with the promotions of Jeremiah and Janice, we are in a position of strength to advance our strategy and drive long-term growth.

Before diving into the quarter, I'd like to touch on the recent announcement of PCS selecting Ryan Specialty as their exclusive distribution partner. In response to the evolving needs of our clients, we are pleased to announce this innovative strategy which combines the strength and skills of PCS with the unique distribution capabilities and technical expertise of Ryan Specialty. We believe this initiative will increase the ability to handle more volume for both firms. AIG has a long history in the high and ultra-high net worth segment, along with a deep bench to be able to effectively service this select customer base. A blend of E&S and admitted products with a single carrier helps simplify the placement of these accounts, which have become increasingly difficult in recent years. Through this partnership, our vast network of retail brokers will be able to access the broad range of solutions from PCS. We are in a prime position to capture broader E&S tailwinds and further capitalize on the accelerated growth in the segment.

Now moving to Q2, we had another excellent quarter of double-digit growth across our specialties, driven by an incredible team effort. Our wholesale brokerage specialty generated strong growth across property and casualty. In property, we continued to see strong new business and high retentions, as risks remain in the E&S channel. Given years of significant rate increases and no mega catastrophe event last year, underwriting appetite has picked up, taking rates off their peak, as additional capacity enters the market. That said, the market continues to be impacted by elevated levels of attritional and secondary perils, including severe convective storms, which are off to another record year, on top of a record-high in 2023.

Given higher retentions of risk and growing property exposures in both high-value and catastrophe-prone areas, any mega event could have a material impact on the property market. Our deep roster of talented professionals continues to successfully navigate this dynamic environment, finding the best solutions for our retail clients and winning market share from our competitors. We continue to believe property will be a strong contributor of growth for Ryan Specialty in 2024.

Our casualty practice had another excellent quarter. The casualty market continues to experience an increasing number of classes faced higher loss costs. This is driving rate increases to accelerate and broaden out across industry classes. This trend is driven by many factors, notably an acceleration of social inflation marked by increased frequency, more prolonged legal cases, higher settlements, judgments, and nuclear verdicts, all amplified by litigation finance, and ongoing impact of reserve changes on the 2015 to 2019 accident years, with growing recognition of reserve inadequacy for more recent years.

Similar to the recent trend we saw in property, these factors are driving more casualty risks into the E&S market. E&S is better suited to handle a more uncertain loss environment as it offers significantly more freedom of rate and form, and the ability for insurers and underwriters to adjust more quickly. We continue to see the E&S market respond well, yet with acute discipline and tight limit management. In this environment, it is critical for clients to receive specialized industry and product-level knowledge, and that is exactly where we excel, thanks to our world-class team. We are confident that casualty will continue to be a strong driver of our 2024 growth.

Overall, our wholesale brokerage specialty team remains committed to delivering innovative strategies and products to meet the ever-changing needs of our clients.

Now, turning to our delegated authority specialties, which include both binding authority and underwriting management. Our binding authority specialty had another strong quarter, thanks to our top talent and new proprietary products that offer a seamless experience for clients who have small but tough-to-place commercial P&C risks. We continue to believe the consolidation of panels and binding authority remains a long-term growth opportunity, and we are well-positioned to capitalize.

Our underwriting management specialty had an excellent quarter, led by property and casualty and transactional liability, as well as meaningful contributions from our recent acquisitions. We are thrilled with today's announcement of US Assure, which we expect will complement our capabilities in the specialty niche.

Turning to price, while we continue to experience various micro cycles across insurance lines, broadly, we continue to see two important trends. Property continues to see pricing moderation and stabilization after years of large increases. And casualty is seeing price increases accelerating and broadening out across industry classes. Across both major industry classes, there remains heightened uncertainty in the loss environment. This is driving new risks into and risks to remain in the E&S marketplace. As we've noted consistently, in any cycle, as certain lines are perceived to reach price adequacy, admitted markets tend to step back in uncertain placements. However, this is still not playing out and the standard market has not meaningfully impacted rate or flow in the aggregate. We are well-positioned to assist our trading partners in navigating this ever-changing insurance landscape. We continue to expect the flow of business into the non-admitted market to be a significant driver of Ryan Specialty's growth, more so than rate.

With that, I will now turn the call over to our Chief Financial Officer, Jeremiah Bickham, who will give you more detail on the financial results of our second quarter and more financial information on the US Assure acquisition. Thank you.

Jeremiah R. Bickham

Chief Financial Officer, Ryan Specialty Holdings, Inc.

Thank you, Tim. Before diving into the quarterly results and acquisition details, I want to express my gratitude for the opportunity to become President of Ryan Specialty. I have dedicated the last nearly 13 years of my career to Ryan Specialty, and I'm incredibly fortunate to have worked so closely with Pat, Tim, Miles, and the entire team as we have built this exceptional firm. I would like to thank Pat for continuing to be a part of the executive team as a true player coach.

My charge is to continue building on what Pat and Tim have created at Ryan Specialty, delivering innovative solutions to our clients, generating industry-leading organic growth, executing on our M&A strategy, increasing profitability, and delivering additional value to our shareholders. I've worked closely with Janice for many years and I am thrilled that she will be taking over as CFO come October 1. Her strong financial expertise and dynamic leadership will help us build on our proven strategy.

Now, turning to the quarter. Total revenue grew 18.8% period-over-period to $695 million, fueled by another very strong quarter of organic growth at 14.2%, and contributions from M&A, which added nearly 5 percentage points to our top line. Growth was once again driven by very strong renewal retention, ongoing tailwinds in much of the E&S market, and our ability to win substantial amounts of new business.

Adjusted EBITDAC grew 27.6% period-over-period to $248 million. Adjusted EBITDAC margin improved 240 basis points to 35.6%, driven by another quarter of strong revenue growth, savings from ACCELERATE 2025, and underlying margin improvement in our business. Adjusted diluted EPS grew 28.9% to $0.58 per share. Earlier today, our board declared a regular quarterly dividend of $0.11, payable later this month.

Turning to our ACCELERATE 2025 program, we had approximately $8 million in charges for the quarter, bringing our total thus far to $85 million. And we remain on track to achieve annual savings of approximately $60 million in 2025. We continue to expect that approximately half of these savings will be realized in 2024, with the majority of those savings falling to our bottom line. Those savings will be paired with underlying margin expansion in our business, and we expect further underlying margin expansion in the years to come. Our adjusted effective tax rate was 26.1% for the quarter. And based on the current environment, we would expect a similar tax rate for the remainder of 2024.

Turning to our acquisition of US Assure in slide 8 of our supplemental presentation. As Pat, Tim and Miles have mentioned, we are very excited to announce this acquisition as it clearly fits within our long-term strategy and represents a meaningful boost to our delegated authority offering. We are acquiring 100% of the equity interests of US Assure for a base purchase price of $1.075 billion in cash, which represents 12.8 times trailing 12-month EBITDA. There is also contingent consideration of up to $400 million available if the company meets certain growth and profitability targets.

Please note that this acquisition is an asset deal for tax purposes. We will be funding the upfront consideration of the acquisition through a combination of cash on hand and proceeds from newly issued debt. We very recently upsized our revolving credit facility to $1.4 billion and executed a $500-million 364-day bridge facility, which intend to replace with proceeds from a syndicated market transaction in Q3.

Importantly, following the close of this transaction, we expect no change in our financial policy, including our leverage comfort corridor of 3 times to 4 times total net leverage, and expect our credit ratings to remain consistent. Assuming the transaction and debt raise are completed by September 1, we expect GAAP interest expense, excluding the amortization of deferred issuance cost of approximately $35 million in Q3 and approximately $46 million in Q4. These estimates are based on our current assessment of market conditions and subject to the terms we achieve under our upcoming debt offering.

The US Assure transaction is expected to be immediately accretive. We expect adjusted EPS accretion of approximately $0.01 to $0.02 from September through December, and approximately $0.06 in year one.

Turning to guidance, we are now guiding our organic revenue growth rate for the full-year 2024 to be between 13.0% and 14.0%, which reflects an increase of 50 basis points to the floor compared to our previous guide range of 12.5% to 14.0%. Assuming the US Assure transaction is completed on September 1, we are guiding to a full-year adjusted EBITDAC margin between 32.0% and 32.5%, up from our prior guide range of 31.0% to 31.5%.

In summary, it is a very exciting time at Ryan Specialty. We continue to perform at a very high level. We once again grew market share in several of our businesses while continuing to invest in our platform, and we executed on significant M&A that will strengthen our organic growth engine for years to come.

Looking ahead, we will continue to invest organically in our business to support sustainable and profitable growth. We will continue to execute on our disciplined M&A strategy with high-quality acquisitions, and we will maintain our strong balance sheet while returning excess cash, all of which should create long-term sustainable value for shareholders. Our dynamic and differentiated business model continues to position us well to serve our clients and deliver innovative solutions that our clients have come to expect as a hallmark of Ryan Specialty.

With that, we thank you for your time and we'd like to open up the call for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Elyse Greenspan with Wells Fargo. Please proceed with your questions.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Good evening. My first question is on, I guess, the margin guidance. Is the upside solely from the transaction? And then with this, I guess this would be the new baseline that we want to think about margin improvement for when we're thinking about 2025?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Hi, Elyse. We haven't given an updated margin guidance with and without US Assure, but to clarify, the new margin guidance does include US Assure and the significant uptick is in large – is almost entirely due to US Assure.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then it would be the right baseline when thinking about 2025, because there's not like any – you'll just have – assuming you complete the deal at the start of September, and then we can just think about a normal level of margin expansion off of that base?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yes. There's nothing – there's not a non-recurring element to how we'll finish 2024. And when we update guidance for 2025 early next year, it'll be off this is a baseline, yes.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then on the organic growth, you guys did see some sequential acceleration about 50 basis points in the quarter. I thought Q2, you guys, like the industry, skew a bit more towards property, which it sounds like from your comments, rates are decelerating. So, did you see perhaps within the numbers a slowdown in property growth, offset by strong organic growth in casualty? Or what led, I guess – can we get some more color on what led to the sequential acceleration within organic revenue growth?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yeah. So, there's a couple pieces to that. I'll answer it from a numbers perspective and Q2, and maybe a little bit beyond that. And then maybe toss it over to Tim to talk about the market dynamics underpinning that. So, first off, property was an extremely strong contributor in Q2 and H1 overall. And as a reminder, Q2 is our highest percentage of property from a seasonality perspective. So, it was a really tough comp. And as Tim mentioned, there has been some rate moderation and, in even some cases, deceleration. That being said, because the flow of business into E&S is still healthy and because our team presents unique solutions and products, we were able to produce very solid double-digit growth from our property portfolio. And as we've said in our prepared remarks, we believe property will be a strong contributor to growth for the remainder of the year.

Tim, you want to add to that?

Timothy W. Turner
Chairman & Chief Executive Officer-RT Specialty & President & Director, Ryan Specialty Holdings, Inc.

A

I would just add that the property market remains overall very firm. Even with the modest rate decelerations that we're seeing, our flow of new business is double-digit. We're capturing new business. We're retaining our book at a high level, and we have a very strong, heavy windstorm season ahead, as well as wildfire season throughout the summer. So, we remain very bullish in the property segment.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Thanks. And then my last question, I guess, is on the agreement you guys were talking about with AIG. How big of an opportunity is this for you guys? And is there some level of revenue from this relationship embedded within your new organic revenue growth guidance?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

I'll take that last part and then kick it back to Tim, Elyse. There is no revenue either in Q2 or embedded in the guidance. It's all upside and it is a very exciting opportunity, which, Tim, take it away.

Timothy W. Turner
Chairman & Chief Executive Officer-RT Specialty & President & Director, Ryan Specialty Holdings, Inc.

A

High net worth has increasingly become an E&S product line and we've developed broker expertise, very technical underwriting expertise. And we've been able to strike this key exclusive with PCS and AIG. We're excited about it. The market demands for our services and product line are increasing every day, and we know that we can add tremendous value for our customer base.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Grace Carter with Bank of America. Please proceed with your question.

Grace H. Carter
Analyst, BofA Securities, Inc.

Q

Hi, everyone. Looking at the US Assure deal, I was hoping you all could help us out on if there's any notable seasonality in the revenue or in the margins that we should be thinking about as we're looking at the modeling for this?

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.

A

Hi. This is Miles. We appreciate the question. And no, there is not noticeable seasonality. As indicated in the release, this is a substantial amount of in-force policies, approximately 150,000, which are small [indiscernible] (00:39:11), taking place over the course of the year.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

And embedded in that question, I know you referenced PCs and you're probably looking at the back of the deck and seeing the different numbers. There is, look, less predictability, like PCs are harder to model than our base fees and commission. But US Assure has a 44-year relationship with Zurich, a really long history of delivering profitable underwriting results. And there is significant carrier profitability represented by the estimated 2024 PC figure in the deck. And we fully expect US Assure to continue delivering exceptional underwriting results for Zurich going forward.

Grace H. Carter
Analyst, BofA Securities, Inc.

Q

Thank you. And I guess moving back to the – your standalone book, just given kind of all of the noise in the casualty market these days, I was wondering if there's any impact on how you're thinking about the outlook for contingents in your business or if you expect things to continue to perform pretty much in line with how they have in the past several quarters? Thank you.

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.

A

Yeah. Thank you. So, we're proud that we spotted the need for rate in casualty several years ago. We've been introducing it broadly across our product set. We think we've been – delivered product to our carriers particularly over the most recent parts of the cycle. And so, we do expect continued attractive profit commissions from the business we've placed.

Grace H. Carter
Analyst, BofA Securities, Inc.

Q

Thanks. And just one more, if I can. Just kind of given the freedom of rate and form in the non-admitted market and what you referenced about just how firm the rates have been in casualty in the non-admitted market for a while, I mean, would it be reasonable to assume that there would be less reserving concerns on the non-admitted casualty side relative to the admitted casualty side, just kind of given that the assumption that some of these accounts would be more challenging in the first place and that would be taken into account during the initial underwriting process?

Timothy W. Turner
Chairman & Chief Executive Officer-RT Specialty & President & Director, Ryan Specialty Holdings, Inc.

A

I think it's becoming widely known that the loss cost adjustment factors on long-tail, high-hazard casualty business are accelerating at such a high rate that while we know the 2015 to 2019 accident years were grossly under-reserved, we're – the industry is questioning the reserves in 2021 and 2022, and there's a lot of discussion about rate adequacy in those years as well. So, rates continue to go up. Casualty in the high-hazard segments that we specialize in continue to firm, and our services are in high demand.

Grace H. Carter
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Rob Cox with Goldman Sachs. Please proceed with your question.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Congrats, everyone, on the new roles.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Thank you, Rob.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

So, I just wanted to start with a question on US Assure. And so, when you say the margin is in the mid-60s, I just want to confirm that that's adjusted EBITDAC margin? And could you just walk us through how the margin is sustainably that high, just given that's materially higher than some of the other programs that we've seen? And then just, yeah, how about I stop there.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Confirmed that that is the adjusted EBITDAC margin that we believe is very sustainable long-term in the mid-60s. As to why, there's a couple reasons and I'll let Pat take those.

Patrick G. Ryan
Founder, Chairman & Chief Executive Officer, Ryan Specialty Holdings, Inc.

A

I think the biggest reasons are that they have been in this business space for 44 years. They have a highly efficient distribution system and operating cost structure. This is a very high-value product to small contractors. And as you know, people require insurance when they hire a contractor. And these are very low average premiums. They're micro premiums. A lot of people would say you can't make a profit on this size premium. The US Assure team several decades ago figured out how to do that. And so, it's a very high-value proposition to the contractor. And they have a very long-term, sustainable, high-profit result with Zurich. You'll see in the deck that we just renewed – or extended, I should say, a 10-year contract with US Assure and Zurich to solidify the long-term. It's very unusual to have a very long-term contract on delegated authority. Often, they're a year at a time and sometimes less. So, Zurich is so committed to this that they wanted a fresh start with us, and we did with them, to have a 10-year contract. So, this is a very efficient value-add to contractors, which helps people that are remodeling their homes or building new homes, and they're very tough competitors.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

And also, Rob, the numbers that you're looking at in the deck are not adjusted on the trailing-12 basis. Those are reported. So, to get to the mid-60s, there's not heroic assumptions. As Pat said, it's a highly efficient tech-enabled platform. The majority of their policies don't even require a human touch before they're bound. And then, of course, profit commissions are really high-margin revenue. So, we're very confident that that margin range is sustainable.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And on that point, I mean, the profit commissions are about, I think, in the 2024 year projection, 16% of the total revenue. Is that a solid normal run rate going forward?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

It's not 60% of total revenue.

[indiscernible] (00:46:04)

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

It's going to be a high amount of revenue in Q4 because profit commissions are sometimes booked unevenly. The – if you look at the 2024 E number and you get the 20 part of 1H 2023 is a little bit more representative. But again, those can go up and down. What we're confident in is because US Assure has such a consistent disciplined underwriting approach and they've turned out profits for so many years, that the number, again, will be a little bit harder to forecast than base commission and fees, but it's going to be consistent, and over the long-term, that number's going to go up.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Got it. And maybe just lastly on the organic growth profile of Assure historically, I know you guys mentioned the total revenue growth was double-digit, but is the organic growth profile also that high?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yes. Yes, it is and we think that there's upside to that on our platform. During the first year that we own a company, there's a little bit of a ramp-up that occurs during integration. But long-term and in short order, we think US Assure returns to its historically what's been double-digit-plus organic growth profile and on our platform because we've got a long track record of making great businesses even better. There's upside to their growth profile.

Patrick G. Ryan
Founder, Chairman & Chief Executive Officer, Ryan Specialty Holdings, Inc.

A

As you know, we increase – I'm sorry. Go ahead.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

No, no, you go ahead.

Patrick G. Ryan
Founder, Chairman & Chief Executive Officer, Ryan Specialty Holdings, Inc.

A

Okay. We have a history with our acquisitions, as you know, of really helping them to improve productivity and that's representative of just about every acquisition we've done. And we expect that to be a significant opportunity to help lift our traditional organic rates of growth because we can get them into more brokers. We will have the ability to place business that Zurich doesn't have the appetite for.

But we can take those from the admitted market with the declination by Zurich and to other admitted carriers. We can then produce those in the E&S market for them. So, instead of just having that business fall out, there's an opportunity to put them into the market that they belong in.

Additionally, the online portal has significant opportunities to expand, something that we're working very hard on for a long time, and that is electronic trading of products. And this group has started that in 1997, very early in terms of electronic trading. So, they're quite proficient at it. So, we believe that working together with them will expand opportunities for electronic trading and as you know, binding of business is really principally SME. So, we have a very strong SME market share as you've seen our contract binding business grow very rapidly.

This adds to that very significantly. So, it's been a strategy for our firm since 2015 to expand into what we call our [indiscernible] (00:49:44) strategy into smaller cities, not small towns, but cities that are not the urban hubs and write small commercial. And we've been moving that into electronic trading. So, this fills our SME strategy, this enhances our electronic trading strategy, and so the strategic rationale for this is as fulsome as we could have anticipated.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Meyer Shields with KBW. Please proceed with your question.

Meyer Shields
Analyst, KBW Research

Q

Great. Thanks so much and good afternoon, everyone. Hoping to understand how US Assure's portal interacts with the connector that you talked about as Ryan's sort of automated portal for E&S.

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.

A

Well, Meyer, presently, they are independent, but RT will have expanded access to the US Assure portal. Currently, it's a relatively limited appointment basis. That will be opened up, as Pat touched on. We expect the addition of incremental flow from RT and incremental flow from Ryan online retailers to incremental submissions into the platform. So they're independent today. It is possible in the future that we could offer a quote on US Assure through the connector or they can come direct to the US Assure portal.

Meyer Shields
Analyst, KBW Research
Q

Okay. Perfect. That's helpful. Second question, just looking at the forecast, it seems like expected profit commissions, more than half come in the fourth quarter. I assume what that means that it's 2024 experience that drives US Assure's [indiscernible] (00:52:02). Am I thinking about that correctly?

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.
A

Meyer, they are on a – they are earned over three years on average. So, anything collected this year is the result of 24 to 36 months ago. I want to reiterate what some of my colleagues said. This is a book of substantial policy count, typically lower limit business than a lot of the other delegated authority in our family. There is not material cat exposure and therefore the team feels good about the projections within the book.

Meyer Shields
Analyst, KBW Research
Q

Okay. Perfect.

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.
A

We are expecting it later in the year.

Meyer Shields
Analyst, KBW Research
Q

Okay. Thank you very much.

Operator: Thank you. Our next question comes from the line of Mike Zaremski with BMO. Please proceed with your question.

Michael Zaremski
Analyst, BMO Capital Markets Corp.
Q

Hey, thanks. Okay. Lots of exciting things going on. First question on the margins this quarter, on expenses, the margins were, I think, meaningfully healthier, you could say, than expected. It doesn't look like it was driven by contingents or subs. Anything you'd want to mention there?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.
A

Well, as we said, we were going to resume underlying margin expansion in the business. So, that's a factor. The continued impact of ACCELERATE 2025 is in there, but remember, seasonally Q2 is our biggest quarter, so it's got the highest dollar amount of revenue and margin will follow revenue seasonality to a degree. So, it follows that this would be a very high margin quarter. But we're also thrilled to see our efforts represented through underlying margin expansion and ACCELERATE 2025 borne out in the numbers.

Michael Zaremski
Analyst, BMO Capital Markets Corp.
Q

Okay. Moving to M&A and the acquisition, I guess doing it quickly, looks like your leverage levels will be meaningfully higher. Remind us what your comfort level is on leverage levels so that we can figure out whether we should kind of decel future M&A.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Definitely don't do that last part. So, we've been storing up dry powder for just an opportunity like this. So, we've had pretty low leverage far below our comfort corridor. We anticipate just contemplating closing US Assure that our high point leverage certificate will be something with like a very low 3 times, right around the 3 times to 3.25 times total net leverage. But our comfort corridor and where we expect to spend a lot of time while we're highly acquisitive is the 3 times to 4 times net leverage. So, we still have a lot of room to run, which is great because the cupboard is not bare when it comes to M&A.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. And lastly, the answer's probably just goodwill. Maybe I'm missing something, but the EPS accretion is very low single digits relatively know what the EBITDA accretion will be much higher. Just what's going on there?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Succinctly, look, there's just not a lot of heroic assumptions in there. But just to step back for a second. We've done nearly 60 acquisitions and as Pat said, we've got a really high batting average at making great businesses even better. And we're confident that we will enhance this already high-performing platform and that it'll be a bull's eye strategic fit for us.

As I mentioned, there is a ramp-up period during the first 12 months of ownership while we're integrating the business. So, for example, our EPS estimates in our first year of ownership do not include any revenue synergies. However, as we said earlier, we're very confident that US Assure can grow as it has historically in the double-digit range and sustain the mid-60s margin. So, while we're being prudent in how we're talking about first year EPS, which obviously includes higher interest expense because of the marginal debt we're raising, a business like this with this financial profile along with their consistent profitable underwriting discipline is not only accretive to EPS but also our brand and our overall platform.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Okay. Congrats. Thank you.

Operator: Thank you. Our next question comes from the line of Brian Meredith with UBS. Please proceed with your question.

Brian Meredith
Analyst, UBS Securities LLC

Q

Yeah, thanks. [indiscernible] (00:57:28). First one, [indiscernible] (00:57:30) what is the economic sensitivity of the business and [indiscernible] (00:57:34) sensitive to maybe inflation as well?

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.
A

Yeah. Well, thank you for that. I mean, we want to emphasize that US Assure's been exceptional double-digit grower throughout the cycle. Certainly, over last 18 months, higher interest rates have put pressure on housing starts. They've grown throughout that pressure, we want to highlight, and it also doesn't change the macro addressable opportunity. So, the US has a structural housing shortfall of over 2 million units. The vacancy levels in new and used homes are at multi-decade lows. We have an aging housing stock in the US and so looking ahead, interest rates are, in fact, poised to subside. Building materials and inflationary pressures are now down to pre-COVID levels, at least on building material costs. And so our view is this business has been capturing the opportunity and is poised to really move ahead and as over the coming years.

Brian Meredith
Analyst, UBS Securities LLC
Q

Great. Thank you. Then another just quick one here. Any thoughts on what the CrowdStrike event could mean for the cyber markets here, for pricing and terms and conditions?

Miles Wuller
President & Chief Executive Officer-Ryan Specialty Underwriting Managers, Ryan Specialty Holdings, Inc.
A

Yeah, we appreciate that question. So, we have highlighted terms and conditions, particularly in Fortune 1000-type business. It's been under pressure for the last several quarters. Damages of the CrowdStrike error are still being tallied. We want to emphasize cyber tends to have a longer tail than most folks imagined, but initial estimates are it could be as much as $2 billion.

Initial signs are this as a single event is not on track to create a V-shaped change in pricing. However, we absolutely think it'll firm current levels. It will inspire incremental buyers, and perhaps more importantly, the event is a reminder of how dependent we are becoming on web-based delivery as an economy. It's really incomprehensible how many companies still remain underinsured. So, we do – there might not be immediate changes in pricing. There will be changes in buying habit.

Brian Meredith
Analyst, UBS Securities LLC
Q

Great. Thank you.

Operator: Thank you. [Operator Instructions] And it looks like there are no further questions. Therefore, I'll turn the call back over to Pat Ryan for closing comments.

Patrick G. Ryan
Founder, Chairman & Chief Executive Officer, Ryan Specialty Holdings, Inc.

Thank you very much. Great questions. Thanks for the opportunity to answer those questions. Very proud how our team performed. Very proud of how the company, the firm has performed over the first six months. We thank you all for your support. We look forward to speaking to you in the near future. Have a good evening.

Operator: And this concludes today's conference. You may disconnect your line at this time. Thank you for your participation.