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Ryan Specialty Group Holdings, Inc.

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CORPORATE PARTICIPANTS

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

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

OTHER PARTICIPANTS

Alex Scott
Analyst, Goldman Sachs

MANAGEMENT DISCUSSION SECTION

Alex Scott
Analyst, Goldman Sachs

All right. So we'll go ahead and get the session started here. First, yeah, thank you, everybody, for joining us, both here in the room and virtually. And I'd like to say thank you and welcome to Pat Ryan, Founder, Chairman and CEO; Tim Turner, President of Ryan; and Jeremiah Bickham, EVP and CFO of Ryan. So thank you for all being here. Very much appreciated.

QUESTION AND ANSWER SECTION

Alex Scott
Analyst, Goldman Sachs

Q

Maybe, first, I'll just kick it off with a more high level question. Since you're a relatively new company to the public markets, I thought we could start with just the background of the company and what some of your key strategic priorities are?

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

A

Sure. Well, the background of the company is pretty straightforward. We started back in 2010 with an idea that the E&S market, excess and surplus lines market was about to undergo some serious change. We believe that change is all going to be positive for those in the E&S market that we're prepared to deal with it. So we set up a wholesaler that directed Tim Turner to join me, with the idea to build a large wholesale broker, specializing in high hazard risks.

Concurrently, we believe that there's going to be a growing phenomenon of delegated authority for underwriting administration and distribution. And that's happened, and we based all of that on the fact that the world was getting a lot riskier, and that more of that risk is going to find its way in the E&S market. And secondly, that there was a phenomenon going on where retail brokers have been using far too many wholesalers [ph] very cost-effective, (02:14) and they didn't present their business to the market in a organized fashion to really optimize the value of that scale.

That's cool. So we thought that would be changing, and sure enough, it did right after we started and went from about 10 to 12 wholesalers down to three. And then, Marsh followed [indiscernible] (02:40) more than that, down to three, and Willis went to four and on and on. And then there was an additional phenomenon of the consolidation of retail brokers by strategics, but principally by PEs, some pension money, but PEs. That consolidation was starting to get quite serious and, of course, over those past 11 years, it's really accelerated and in high gear right now.

What that meant was that our clients would be getting a lot larger. And so that worked. So we have these tailwinds and we decided that we would build it like I had done in my past life around really exceptional talent. Getting Tim was the key. He attracted a lot of really high-quality people. We wanted to have an M&A strategy, blended with that, again, a growth strategy. And that's worked well. We kept building the – bring more diverse and more impacting solutions to the retail world of community. And that's our mission today and also to provide a new innovation to the carriers, to provide them with the opportunity to delegate that authority and get organic growth and get good control over the business. And that's worked quite well. So that's kind of how where we are 11 years later.

Alex Scott
Analyst, Goldman Sachs

Q

When you think about the excess and surplus lines market and just the magnitude of volumes that we've seen coming in, I mean, how do you view the sustainability of that, and what are your views sort of longer term for that market?

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

Tim, why don't you pick up on that?

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.
A

Sure. I'd be happy to. Thanks, Alex. As Pat alluded to, the world is getting riskier, a lot more complicated, a lot more sophisticated in the distribution and the demand for talent and expertise went up precipitously over the last decade. And in that, as Pat said, the retail brokers on one end of it bought differently from our channel. But, more importantly, the capital providers distributed differently, and that all rendered to our benefit.

And so what we have today is continued growth in the space and being driven by some pretty big factors on the property side, global warming, this constant challenge to predictability modeling, creating a lot of shedding and de-risking in the standard market, all that business pouring into our channel. And then on the casualty side, as we've talked about many times, the social inflation and these nuclear verdicts that are popping up almost every week now. That's really driving a lot of these accounts to be fractured and to require this high degree of specialization and this shared layered concept, which top wholesalers like ourselves are so well-known for. And lastly bringing underwriting solutions and binding and programs and MGUs into those very same niches that are very highly specialized what we refer to as practice group verticals that matches up with the buyers, the retail brokers very well, starting with the globals, the nationals and the regionals.

Alex Scott
Analyst, Goldman Sachs
Q

Could you talk about just the supply of capital and how that's impacting E&S for its standard lines? There's definitely been some pullbacks in the standard lines in terms of what they're willing to write, and it's driven a lot into those markets, seen pretty strong pricing for a while now. Any view on sort of that aspect of the disruption there? And will that continue? Or are you starting to see more supply capital coming into drive some of that business?

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

Tim?

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.
A

Sure. From every indication we have got and we get some pretty great data much, much quicker today than we would 10 years ago, indicates that flow is going to continue to grow. We're getting monthly [indiscernible] (07:12) an example of that we get monthly surplus line stamp filing fees from the top five states in the country. Very accurate, every month through the WSIA, and October was up 2%. So we know the dumping and the shutting from the standard markets continues and you see their poor results not across the board but in these higher hazard niches is what we follow. So we're prepared to see a bigger influx of highly specialized business coming into the channel.

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

One of the other parts of that, to your question, is that the large range reinsurance and large direct insurance are focusing more capital in this space. And that's a very positive factor for the industry, a very positive factor for us, because I think it's generally agreed that macro insurance, commercial insurance market has excess capital. [indiscernible] (08:15) that excess capital in these types of risks, there's a shortage of capital. And so that recognition of the opportunity to work with people like ourselves and some of our competitors is changing the dynamics but in a very positive way.

Alex Scott
Analyst, Goldman Sachs

Q

So I think today it seems like you guys have also benefited a lot from the consolidation that is happening within retail brokers. And I think more recently you've expressed a lot of optimism around the delegated authority business and some of the opportunities to move forward with growth there as well. So I'd love to hear about that. And as we look forward, what delegated authority can mean for your business?

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

A

Okay. Well, why don't I take the delegated authority, you take the large brokers.

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

Sure.

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

A

Why don't you start with that?

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

Okay. Well, as we know, back in 2008-2009, when data and analytics became readily available to lots of sectors and then financial part of the business, insurance brokers were starting to get data on their inefficiencies, and as Pat mentioned, specific to their use of too many intermediaries. So the auditioning of wholesalers and MGUs to RFP and be qualified really started back that, but it accelerated and was really part of why I joined Pat and we started the company.

We could see that the importance of being independent and not having channel conflict and distribution friction in your model was a really important part of the business and being able to showcase top talent, depth and breadth in these 12 or 15 practice group verticals. And that's really the foundation of the company. We set it up that way. And that's continued to this day. There's continuous consolidation of the use of intermediaries that's now cascading into the underwriting side.

So you've heard this before, but MGUs, MGAs programs and binding authorities that's 40% of the flow that comes into that channel. And we're very well positioned to respond to that. And that's really our future growth with these retailers as they'll continue to consolidate, they'll continue to lean on us more and more on these higher hazard classes of business.

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

So on the delegated authority, it's like religion, politics, beauty, people see it differently. So there's a lot of new capital that came in with pure experience, successful executives leaving that and attracting large amounts of capital or doing it the way they did it before. They want to build their own infrastructure, they want to build their own underwriting, they want to redo what they did in the 1970s and 1980s and 1990s and early part of the century.

Our approach is – obviously, we don't have the capital and we're not in the capital [ph] gearing (11:29) business. But we felt that there is a growing phenomena where capital providers have been burned by investing in infrastructure to distribute, infrastructure to underwrite, and then only be hurt by the mobility of underwriters. So one day, you're in the cyber business, you've got a great team of cyber underwriters and wake up some carrier or MGA, poach the whole team. And so people started saying we're better off not sinking all that capital into infrastructure but delegate it.

Now that started in London centuries ago. So the phenomena is not new, but what's new is the recognition that put your capital behind the risk, don't build a huge infrastructure, and have variable costs. So your ROEs improve significantly and that you've got the continuity and that underwriters who are looking for entrepreneurial opportunities and today as well know equity opportunities in lots of industries are attracting talent. And that's true in our space.

So as managing underwriter, we're able to attract exceptional talent, compensate them in a nice incentive plan in a culture that they can thrive in without bureaucracy and also have equity. And that formula has worked really well. So people are delegating more and more. Large European company that we do business with, just we had a meeting with them and they said, we're going to double our delegated authority in the next three to five years. They're large already. But they've decided that that's the most cost effective way for them to grow. And there's more of that happening. And then as startups come in, why reinvent the wheel? And so there's a lot of that, but then there's startups, that are doing the traditional way.

Alex Scott
Analyst, Goldman Sachs
Q

Yep. So just listening to you all talk, I mean, it feels like there are some serious tailwinds that remain with the business, even beyond some of the things that are driving a long-term organic growth, which is impressive in terms of the longer-term goals and targets that you've put out there. But I guess, how should we think about growth, while you still have some of these tailwinds at you're back around pricing and the E&S markets, some larger [indiscernible] (14:28) delegated authority and so forth. Is it right to think that maybe some of these tailwinds can persist for a little while?

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

Well, I think the tailwinds will remain strong, but they will vary. Right now, with the organic growth that we're getting, some of our pure wholesalers are getting in managing and underwriting that has to drop back. There will be more competition as people correct their balance sheets, as people like the rating, like the pricing and they say, we got to get some of that, we've got to get more of that, that'll happen just naturally.

So what we're saying is that, we've always been a double-digit grower and we'll be able to sustain that. We believe we've got [indiscernible] (15:17) on that and then it's a matter of our executing properly and continuing to bring value add to our clients, because if we stay static in that, we're going to lose ground. So we're constantly trying to innovate – not trying to innovate, we're constantly innovating to bring new solutions to them. So there's that organic development [indiscernible] (15:44) mitigates these very strong forces now that we're getting us and a few others. Organic growth was tool in in front of it. That's not sustainable over the long term.

Alex Scott
Analyst, Goldman Sachs

Q

Sure. So maybe we could actually touch on the margins. I mean, so far as a public company, the EBITDA margins have been quite strong. And I think a lot of folks who are looking at the growth that you're getting, while it may not be sustainable over a very long period, it has been significant recently. And I think we're always trying to understand the variable aspect of expenses versus the fixed aspect of expenses. And what's reasonable to think about in terms of how much operating leverage you can get versus sort of the need to always be reinvesting in the business and around your people and so forth?

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

A

Sure.

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

Great question. So one of the many good things about our exceptional growth that we printed for Q2 and Q3 is that investors can see how clearly exceptional growth yields operating leverage. And as Pat said, this is truly exceptional growth. And when you think about the guidance we gave for our margins at the end of this year relative to the long term, we've been really consistent about the fact that our margins for 2021 benefit from the fact that for more than half of the year, we weren't a public company and we're still not back to sort of normalized levels of travel and entertainment spend.

And really, when you look at Q4 and sort of the midpoint of the guidance we gave, the year end guidance at the last quarter earnings call, that's really the most representative quarter in terms of margin that we've printed this year. And you'll notice it's below guidance for the full year. So we don't want investors to think that 32%, call it, is the new baseline in jumping off point for next year. You'll see some negative pressure next year as public company costs have a full year on the P&L and hopefully we get back to normal levels of T&E spend. But the key takeaway is that [indiscernible] (18:10) anywhere near a ceiling in terms of margin on our business and we're a growthy business and with growth comes operating leverage that we're committed to banking each year at least somewhat as time goes on.

Alex Scott
Analyst, Goldman Sachs

Q

Got it. So you also recently announced an acquisition of a transportation wholesaler. I thought maybe you could touch on that, talk about the opportunity to see there.

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

A

Tim?

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

Sure. Crouse and Associates, San Francisco-based West Coast transportation leader. Probably the best transportation intermediary we've seen in the country, had our eye on them for quite some time. Several of us, including me, were friends with their owners, and that time came where they decided as a family to sell the business. They were suffering from what many regionals and some nationals were going through in this new era and really not qualifying for RFPs, constantly having to get exceptions for their transportation expertise. But a real rare breed and a gem of a platform, and that they really perfected transportation broking and transportation underwriting, a real hybrid and really had trained a lot of their own.

We have a lot of the same cultural beliefs and successes together and we watch them around us do very, very well. And in our 50-state mud map of exceling in these practice group verticals, transportation being one of them, lot of these nuclear verdicts are in long-haul trucking, they're in [ph] delivery (19:47), they're in shared economy. We have a great team in the field. We're strong in the east, northeast, southeast, even in the Midwest. But we lacked the depth and the exceptional talent that they had to fill that out. So today, with them being part of us, we feel we can win any RFP in transportation. We can roll out and pitch consolidations specifically in transportation. And we're very excited about it.

Alex Scott
Analyst, Goldman Sachs

Q

Good. Maybe sticking around the M&A topic, just listening to your last earnings call, it sounded like there's a pretty robust pipeline of opportunities that you all are looking at. Can you just talk a bit more about that? And maybe remind us of how much cash and debt capacity you have available for those type of activities?

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

A

Why don't you take the latter part, Tim [indiscernible] (20:42).

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

So, Alex, a great question. We view ourselves as 3 times to 4 times net leverage operators. We think that's a prudent level of leverage, especially for an acquisitive company. Obviously, these businesses can sustain much higher leverage, a lot of the private brokers do that, but we're 3 times to 4 times. As of 9/30, we were below 3 times closer to 2.75 times, so we look at that as a lot of dry powder for M&A. So we can execute on a lot of the opportunities that are out there, while still maintaining prudent leverage and long before we're forced to use any equity as consideration.

And then on the opportunities, I'll pass it back to Pat.

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

A

So as we look at M&A opportunities, we hired a great talent to build a benefit broking and managing underwriting business. And we've been developing the strategy, sub-strategies, and we've been led by this man, John Zern developing opportunities. And these are the kinds of opportunities you have to be very selective, because we need a foundational acquisition and then build organic growth into that, and then bolt-on additional benefits, also managing underwriting. So that takes a lot of spade work. We're not in a hurry, but we've got a pretty good pipeline and so that's benefiting.

Over the years, Tim and his team and lots of our leaders cultivated potential opportunities like Crouse, like All Risks, which we bought in 2020. This was the fourth largest wholesale broker. That took years of cultivation. So there's cultivation going on with family businesses or entrepreneurs, who haven't been ready to sell, but they'll get there.

So we're not the kind of acquirer that buys large numbers of companies, small ones. I'm not diminishing the value of that, that's not our business. Our business is selecting really unique, talented, talent-laden, differentiating companies that bring greater solutions, new solutions or depth to our solutions for our clients. And so we can have a very big one like All Risks, which was over $1 billion in purchase price and now smaller like Crouse, but we're not going to have dozens of that in a year. But there is a robust market out there that we're farming. And that just emerge at different times and some further [ph] along with (23:50) others.

Alex Scott
Analyst, Goldman Sachs

Q

Can you maybe expand on the benefits broking in particular? I guess, it's a market I'm a little less familiar with. I'd be interested in if you could just expand on like where you see the opportunity there? What do the growth rates look like? What are the drivers?

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

A

Well, the growth rates can be modest, or they can be quite robust. And so you have to pick the niche. So medical stop loss, there's an opportunity for robust growth.

Alex Scott
Analyst, Goldman Sachs

Q

Yeah.

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

A

Then small group capitals, probably robust growth. Traditional general agent, also modest growth. So we'll always do something like that if we can build scale through that to get margins up, growth rates up. Well, that would be a tail end of that strategy. But what it does is it brings breadth of our value to our clients. So that's with the larger clients. And then the mid-sized, what we call [indiscernible] (25:14) which we got 1,000s through the All Risks acquisition, they don't have the expertise to do it themselves.

So just like in wholesale property and casualty book, they delegate a lot of [indiscernible] (25:27) they can't afford the talent or the technology, so they fundamentally outsource that to us. And the more of that, the number of [indiscernible] (25:41) gives us a real nice balance in market segmentation. And same thing applies to benefits, but they need us more than the larger – the larger brokers don't really need us that much, if at all, to the benefits. Mid-tier does.

Alex Scott
Analyst, Goldman Sachs

Q

Got it. Okay. Maybe next, can you talk about the property market? So you talked, I guess, in the last earnings call about some of the standard lines companies that are shut and they continue to shut property risk. And it sounds like maybe a little disruption there going into the end of the year. So wondering, if you could eliminate that a little more for us and help us think about that opportunity for your business?

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

A

Sure. Tim?

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

Sure. Well, we already know that we're in a pretty firm market, if not a hard market and catastrophic property, whether it's wind, flood, wildfire, quake. But what happened was something that no one really expected. And that was a failure of some of the modeling and some of the forecasting and looking at the last – really the last season and a half hurricane season. So in Ida, as an example, the second part of Ida that hit the Northeast very hard, that by most experts, their position was they – the modeling failed and they took on a lot more losses than they really expected.

These are some giants in the business, very large global carriers that not only dominated the front-end of cat property distribution, they were big reinsurers as well. And so that became pretty well known over the last six months. And then, the whole wildfire thing really threw another wrench into it.

And then, finally, the Texas freeze. The Texas freeze was really unmodeled for most catastrophic property carriers in the US. So all of that together collectively has caused us new trend that I'm sure you've heard and read about in de-risking, but this time it's not just your boutique players or your US standard markets, it's global markets, it's reinsurers de-risking. And when they do that, they're basically cutting down their opportunities, and they're scaling down how many treaties they can be on, how much capacity they can put up, how much direct transactional capacity can they put up and that's contracting. That's shrinking.

And when that happens, it's a hard market phenomenon and already challenged property market is getting harder by the day. And so today, you're reading a lot about reinsurance treaty renewals for [ph] 01/01 (28:36) in the small print. There's a lot of distressed treaty renewals revolving around the property. So what we expect as we move into the wind buying season in the first quarter and halfway through the second quarter, lots more dumping and shutting of this shared and layered opportunities that we live in, i.e., bringing more capital and having to layer it, using lots more carrier stuff build $100 billion towers of TIV. That looks to be the trend. So again, our services will be needed that much more and we're very well-positioned in the cat property market to help.

Alex Scott
Analyst, Goldman Sachs

Q

Great. So I can open it up to questions. If there's anyone that has a question, we'd be happy to run a mic over to you. [indiscernible] (29:37) one over here.

Q

Hello. Thank you. I think you made a comment about limit management from the carriers. I think it was really more in the context of property market disruption. It does feel like that's been a theme of alongside rate what carriers are pushing for as part of this hardening market. And I'm wondering what impact, if any, that has on the wholesale market structure more generally, if that makes sense? Thank you.

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

Sure. Great question. It has a direct impact on the flow of business leaving the standard market into the E&S market where we have freedom of rate and form. They can't get a lot of these standard companies, can't get their filed rates in quick enough and approved by 50 different insurance departments. It's a game. And it's difficult to respond that quickly and get those adjustments, so they have no choice but to not renew.

And when they do, that business dumps into our market where we have again freedom of rate and form. We can get the – help get the right rate. We can set the right terms, conditions, attachment points, weave together the shared and layer towers that are needed. And again, it looks like our services will be needed even more so in 2022.

Alex Scott
Analyst, Goldman Sachs

Q

All right. Maybe I'll ask one more, just given the pandemic and the things going on with COVID-19, I mean, could you talk about how that impacts your business and certainly it's impacting some of the markets you're in. But what's the impact for your business directly and everything from T&E to just the way things are operating if you can help us think through that?

Timothy W. Turner
President & Director, Ryan Specialty Group Holdings, Inc.

A

Sure. Well, we've been very fortunate as a company in that we have a lot of leadership and training and developing that was already well on its way. So lots of young people who really needed to be interactive and be around clients and markets and have breakfasts, lunches and dinners and conferences that obviously went away as we all know. But the virtual ability to keep that going was amazing. And I think we've done a exemplary job of continuing to move these young people, especially through the system, hundreds of young people who are training at a time, putting them through the [ph] RSG University (32:13).

So part of that, we're looking back on 18 months of it. I think it's slowed a little bit of that down, but because the market was so hard and we had so many add-backs, so many opportunities, we were able to keep that acceleration going. But, today, we're very happy to get these people back in the office. And we just kicked off a campaign to come back in the office part time safely, of course, and prudently. But we're getting them engaged and the business side of it, it's really created a lot more turmoil, a lot more defense costs, a lot more kind of – a lot of challenges in courts that we're following. But as many of you know, the courts have been siding with the insurance companies.

And so there hasn't been any real big verdicts in the pandemic litigation. But now there's time to craft new coverages and to be an expert at bringing new innovative solutions in for future pandemic challenges, whatever they might be. So it's a very dynamic time. But I would say, the one takeaway would be that it may have slowed down the acceleration of training and developing people. So we're very anxious to get them back on the field and interacting every day.

Alex Scott
Analyst, Goldman Sachs

Great. All right. Well, I will stop it there. We're out of time. Thank you so much for being with us. It's very much appreciated and thanks to everybody who's here.

Timothy W. Turner

President & Director, Ryan Specialty Group Holdings, Inc.

Thank you.