20-Feb-2025

Ryan Specialty Holdings, Inc. (RYAN)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

OTHER PARTICIPANTS

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Brian Meredith
Analyst, UBS Securities LLC

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Wes Carmichael
Analyst, Autonomous Research US LP

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for joining us today for Ryan Specialty Holdings Fourth Quarter and Full Year 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, which should not be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations of these non-GAAP financial measures to the most closely comparable measures prepared in accordance with GAAP are included in their earnings release, which is filed with the SEC and available on the company's website.

With that, I'd like to turn the call over to Founder and Executive Chairman of Ryan Specialty, Pat Ryan. Mr. Ryan, please go ahead.

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

Good afternoon and thank you for joining us to discuss our fourth quarter results. With me on today's call is our CEO, Tim Turner, our President, Jeremiah Bickham, our CFO, Janice Hamilton, our CEO of Underwriting Managers, Miles Wuller, and our Director of Investor Relations, Nick Mezick. Before we discuss our results, I want to take a moment to comment on the California wildfires. Our thoughts and prayers are with everyone affected, including our teammates, clients and trading partners. The loss of life and destruction is tragic.

These events are yet another reminder of the difficult and evolving loss environment in which we operate. We remain well positioned to assist our trading partners navigate an ever-changing insurance landscape. Now turning to our financial performance. 2024 was another outstanding year for Ryan Specialty as we delivered on all of our strategic priorities.

Our strong results are a testament to our conviction to put our clients first, our focus on specialized expertise, our commitment to rewarding top talent and our dedication to excellence in everything we do. For the quarter, we delivered organic revenue growth of 11% on top of our toughest quarterly comparable of 16.5%. I'm very proud of our organic revenue growth, considering the volatile property market conditions, along with the exceptional performance of our casualty lines of business and all three specialties, all of which Tim will provide more color on shortly.

This quarter is a telling example of how our specialized, diverse portfolio can balance out and even overcome difficult market conditions to produce exceptional organic growth at scale. For the full year, we surpassed revenues of $2.5 billion, up 21% year-over-year, driven by organic growth of 12.8% on top of the 15.4% in 2023 and significant contributions from our M&A strategy. We marked our sixth consecutive year, growing the top line by 20% or more and our 14th straight year of double-digit organic revenue growth.

Full year adjusted EBITDAC grew 30% to $811 million. Adjusted EBITDAC margin expanded 210 basis points to 32.2%. Adjusted earnings per share grew 30% to $1.79. We successfully executed the largest year of M&A in our history, completing seven acquisitions with trailing revenue of over $265 million. We carried that momentum into 2025 and are off to a great start.

Earlier this month, we closed on the Velocity Underwriting Managers transaction and are very excited to welcome those new teammates into the Ryan Specialty family. We are pleased with the success we had to bring in these great firms, which expands our total addressable market. We've added multiple specialty leading MGUs and programs with unique product sets, technology advantages like efficient online distribution and have expanded geographically. The evolution of our business mix is consistent with our core mission of offering differentiated specialty insurance services to brokers, agents and carriers.

Further, it offers clear diversification benefits to our financial performance. Including Velocity, delegated authority now makes up nearly 45% of our revenue. The build-out of our delegated authority capabilities in specialty lines was part of the core thesis for Ryan Specialty's founding and we are proud to have been the early mover investing into this segment. We've led structural changes that have fueled growth and increased adoption of delegated underwriting authority across our industry.

In my founding letter that accompanied our IPO, we set out a strategy to build a delegated underwriting authority business with a differentiated platform and top flight underwriting talent. This was in response to the growing unmet need among insurance carriers for a trading partner that could assist them in meeting the challenges and opportunities of a rapidly evolving and increasingly complex specialty insurance market.

As we move into 2025, we see continued validation of our delegated authority strategy and confirmation of acceleration in carriers' use of delegated authority. Specifically, AM Best recently published a market wide study, which cited scaled delegated authority partners as increasingly valuable for a number of factors, notably, niche specialization, portfolio diversity, improved costs and efficiency, speed to market and access to superior underwriting technology were all cited and have been core to our offering since inception.

Additionally, of the carriers polled, 70% were expected to grow their use of delegated authority in 2025, with no respondents planning to shrink. Overall, 52% of respondents commented that delegated authority would take a more significant role in the insurance value chain, again, with zero respondents seeing a possibility of decline in relevance. As we look back at the last 15 years of investments in our business, we are proud of what we've achieved. Ryan Specialty is stronger than ever. We're excited to see the benefits from our recent acquisitions come through. As we've repeatedly noted, this year's M&A is next year's organic growth.

As we look to 2025, we expect to deliver another year of double-digit organic growth as well as margin expansion. We believe that we will continue to deliver innovative solutions to our clients, generate industry-leading organic growth, execute on our M&A strategy and increase profitability while investing in our platform, all of which drive significant additional value for our shareholders.

I'm proud of our entire team's dedication and relentless efforts to evolve our brand into the very best specialty insurance services firm in our industry and I'm very excited for our future. Now I'm pleased to turn the call over to our Chief Executive Officer, Tim Turner. Tim?

Timothy W. Turner

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

Thank you very much, Pat. It was another outstanding year for Ryan Specialty, as we delivered our 14th consecutive year of double-digit organic growth with very strong new business generation. Our full year organic growth of 12.8% was strong, driven by consistent results in casualty. Property was also solid for much of the year, and our team managed this challenging environment well despite rate deterioration, which became more pronounced in the fourth quarter. We executed on one of our top strategic priorities, completing a record year of M&A, with the largest transaction being our acquisition of US Assure.

We added over $265 million of annual revenue to our platform, as well as a myriad of capabilities to our underwriting management specialty. For example, with both Castel and Innovisk, we significantly enhanced our UK and European footprint and set the stage to accelerate our international expansion. With each, we added key talent, new capabilities, and incremental products, including a strong environmental MGU, which complements our brokerage expertise. With US Assure, we've added to our sophisticated set of builders' risk product to serve the attractive SME segment. With expertise across all market segments, we're well placed to expand our product offering and cater to this expanding market.

Next is EverSports. We were very pleased to be a solution provider for Everest, a great trading partner of ours in acquiring this business. Ryan Specialty Underwriting Managers as an MGU is working closely with Everest on the re-underwriting of this book, with an emphasis on E&S solutions. Following integration into our existing MGU, this acquisition is further enhanced by our exceptionally strong brokerage practice within RT Specialty, and most recently is the acquisition of Velocity Risk Underwriters.

With $81 million of annual revenue, Velocity adds critical property capabilities and an emphasis on middle market and small to medium commercial business. Velocity further rounds out our offering of ground-up property, shared and layered, and Tier 1 CAT, all to better serve our retail and wholesale clients. With Velocity, we further position ourselves to capitalize on the long-term growth opportunity we see in property catastrophe risks. We are also very excited to partner with and strengthen our strategic relationship with FM Global, an industry-leading property carrier.

As part of the transaction, FM Global is expected to acquire a majority of the balance sheet of Velocity Specialty Insurance Company, or VSIC, one of the capital providers that supports the MGU. A component of this pending transaction has Ryan Specialty acquiring a 9.9%, or approximately a $16 million stake in VSIC, subject to closing adjustments.

We will not consolidate VSIC. Rather, we expect to treat this stake as an equity method investment, similar to our existing investment in Geneva Re. This is part of our strategic commitment to and alignment with our capital providers. Our successful M&A activity this year cements Ryan Specialty Underwriting Managers as the preeminent delegated underwriting authority platform. As demonstrated, each of these acquisitions support our strategic vision of aligning specialized underwriting products with our distribution expertise across industries, expanding our capabilities, and offering clients diverse, innovative solutions.

On top of everything else, we believe we can further enhance these already great businesses through our track record of productivity improvements. Now let me dive into our specialties. Our Wholesale Brokerage specialty had a strong year and a solid fourth quarter. In Property, we executed well. We saw property pricing decline modestly early in the quarter then the decline accelerated significantly in December, similar to what we witnessed at the end of Q3.

As noted on our last call, December is the largest property month in Q4. Nevertheless, we overcame these trends as we took share of strong flow into the channel, won head-to-head against our competitors, and had high renewal retention. The recent LA wildfires, devastating Hurricanes Milton and Helene, and record severe convective storms, second only to 2023, are tough examples driving heightened concern for large loss events.

Add to this, growing exposure in both high-value concentrations and areas of high catastrophe risk, we believe there is further proof of long-term durability of and the need for E&S property solutions. With our deep capabilities, we will continue to deliver value and offer solutions to the most complex issues our clients face, irrespective of the market cycle. Given the continued uncertainty in the rate environment, we expect more modest growth in property this year. But we strongly believe property will remain an important contributor to our growth, particularly over the long term.

Our casualty practice had an outstanding year with strong new business and high renewal retention. A persistently challenging loss environment is driving higher, or in some lines, accelerating loss costs in numerous casualty classes. The admitted market continues to react to this trend by dumping and shedding risks, with those risks moving into the specialty and E&S markets. We see the E&S market responding well, with carriers tightening distribution lines, re-underwriting, changing appetite, raising prices and focusing on limit management. As a result, we believe the need for specialized industry and product-level knowledge Ryan Specialty offers has never been greater and our value proposition has never been stronger. We remain confident that casualty will be a strong driver of our growth moving forward and that we will continue to be a leader in casualty solutions for years to come.

Now turning to our delegated authority specialties, which include both binding and underwriting management. Our binding authority specialty had an excellent year and continues to perform very well, driven by our top tier talent and our expanding product set for small, tough-to-place commercial P&C risks. We continue to believe panel consolidation in binding authority remains a long-term growth opportunity and we are well positioned to capitalize.

Our underwriting management specialty, which includes MGUs, MGAs and programs, had another strong quarter and an outstanding 2024. Results were driven by strong organic growth, particularly in casualty and transactional liability. We also had meaningful contributions from recent acquisitions, including a full quarter from US Assure and by contingent commission as we continue to deliver strong underwriting profit for our carrier trading partners. Our strategic positioning allows us to capitalize on organic and inorganic growth opportunities. We believe this combination, paired with our skill to manage the business through the insurance cycle, ensures our ability to deliver consistently profitable underwriting results, growth and scale over the long term.

Turning to price. After years of significant price increases and capacity and appetite increasing in the second half of the year, property pricing was down in Q4. At the same time, casualty pricing accelerated and broadened out across an increasing number of classes. Across both major classes, there remains uncertainty in the loss environment. This continues to drive higher retentions of risk and pushes new risks into the specialty and E&S marketplace. We have consistently noted that in any cycle, as certain lines are perceived to reach pricing adequacy, admitted markets tend to step back in on certain placements. However, this is still not playing out in any measurable way and the standard market has not meaningfully impacted the rate or flow of our portfolio in the aggregate.

As we've said since our IPO, we continue to expect the flow of business into the specialty and E&S market to be a significant driver of Ryan Specialty's growth over the long term, more so than rate. Most importantly, we remain well positioned to assist our trading partners navigate an ever-changing insurance landscape. As we progress through 2025, there are several things you can continue to expect from Ryan Specialty.

First, we expect to record our 15th consecutive year of double-digit organic growth, once again driven by secular growth drivers such as retail brokers becoming larger through solid organic growth and ongoing consolidation; panel consolidation, which has created growing recognition among retail brokers of the need to optimize client outcomes, minimize E&Os and invest in long-term strategic relationships that help them win; the world getting riskier and more complex; AI, cyber threats, climate change, social inflation, political unrest. These are all driving more risks into the E&S marketplace, which offer solutions that would otherwise not be available.

We believe E&S will continue to outpace growth in the admitted market, overshadowing any cyclical shifts. This was further supported by the significant commitment to the E&S market made by carriers that historically participated only in the Admitted market and the addition of new capital. Adding to our secular growth drivers, our Ryan Specialty's own attributes and strategies, our ability to innovate, evolve and win is underpinned and perpetuated by specific pillars, our entrepreneurial and empowering culture, our unique relationships and position of trust and our scale and scope of expertise. Second, we will thoughtfully invest in our business to optimize our platform and support long-term growth. To that end, we completed our ACCELERATE 2025 program at the end of the year. As Jeremiah will speak to shortly, the results and opportunities from ACCELERATE 2025 provide us more flexibility and we believe have placed us in a unique position to further invest in our growth.

We've said it before, but it bears repeating: we will always prioritize investing in our business. Onboarding top talent, adding capabilities and enhancing tools, technology and governance will always be the hallmark of our commitment to our employees, clients and trading partners. These investments across Ryan Specialty, along with our commitment to innovation, should continue to enable us to consistently achieve industry-leading organic growth for years to come.

Finally, we will continue to grow through M&A. Whilst still early in the year, we are off to a great start and we see a broad set of strategic M&A opportunities in front of us. Our focus is on strategic acquisition of specialized expertise, adding new products, capabilities or geographies for our clients and trading partners, while being disciplined integrators. That said, we will only move forward when all of our criteria for M&A are met, a strong cultural fit, strategic and accretive.

To sum up, it was an excellent year for Ryan Specialty. We are off to a great start in Q1 and are well positioned for 2025 and beyond. The companies that will win have to be the best of the best, the A-plus players. That means keeping the best talent. And we are pleased to end 2024 with another year of best-in-class retention among our producers. We have built an incredible business over the last 15 years in terms of our scale, scope and intellectual capital, one that has earned the trust and respect of our clients, one that is recognized as the destination of choice for world-class talent and one that is exceedingly difficult to replicate, providing us with clear competitive advantages for years and years to come. I am proud of our entire team for delivering another year of outstanding results and continuing to add value for our clients, trading partners and ultimately our shareholders.

With that, I will now turn the call over to Jeremiah. Thank you.

Jeremiah R. Bickham

President, Ryan Specialty Holdings, Inc.

Thank you, Tim. We are very pleased with our strong performance in 2024. Our success continues to be driven by our unparalleled expertise, our unmatched work ethic, and our culture of innovation that we've built and reinforced over the last 15 years. We were also pleased to complete our ACCELERATE 2025 program at the end of last year, as planned. ACCELERATE has matured our operating model and made us a more efficient organization. Because of this program, we now have more flexibility and are in a unique position to be able to make even larger, long-term investments in our platform, while consistently delivering margin improvement.

We are making targeted investments in talent, operations and go-to-market strategies to support our growing business. This includes additional underwriters, actuaries, risk modelers, data scientists, along with distribution support and is consistent with what has made our underwriting platform successful to date. We are also investing in new technology, including AI solutions and digital insights to bring the best of Ryan Specialty to our clients. We maintain our focus on our winning culture, remaining a destination of choice for top talent, enhancing our growth opportunities and furthering our ability to enrich the experience of our teammates.

Our dynamic and differentiated business model, which reinforces our unique ability to generate sustainable, outsized organic growth makes us very excited for 2025 and beyond. With that, I'll now turn the call over to our Chief Financial Officer, Janice Hamilton, who will give you more detail on our financial results. Janice?

Janice Marie Hamilton

Chief Financial Officer, Ryan Specialty Holdings, Inc.

Thanks, Jeremiah. In Q4, total revenue grew 24.5% period over period to $664 million. Growth was fueled by organic revenue growth of 11%, strong contribution from M&A, which added nearly 11 percentage points to our top line and contingent commissions as we delivered strong underwriting profits for our carrier trading partners.

Growth was again driven by our ability to win substantial amounts of new business, high renewal retention and ongoing tailwinds in much of the specialty market. Adjusted EBITDAC grew 36% period-over-period to $216 million. Adjusted EBITDAC margin expanded 280 basis points to 32.6%, driven by another quarter of strong revenue growth, savings from ACCELERATE 2025, underlying margin improvement in our business and recent acquisitions.

Adjusted diluted EPS grew 29% to $0.45 per share. Our full year 2024 results were excellent. Total revenue grew 21% to over $2.5 billion, driven by organic revenue growth of 12.8% and strong contributions from M&A, which added nearly 7 percentage points to our top line. Adjusted EBITDAC grew 30% to $811 million. Adjusted EBITDAC margin expanded 210 basis points to 32.2%. Adjusted EPS grew 30% to $1.79 per share. Our adjusted effective tax rate was 26% for both the quarter and the full year.

For 2025, we expect our adjusted effective tax rate may move slightly based on geographic mix and tax law changes. We completed our ACCELERATE 2025 program at the end of the year and will generate approximately $60 million of savings, gross of reinvestment in 2025. Turning to capital allocation, M&A remains our top priority now and for the foreseeable future. Supporting our M&A program, we priced a $600 million add-on to our 2032 notes in a private offering at a fixed rate of 5.875%.

We ended the quarter at 3.1 times total net leverage on a credit basis. This is at the low end of our leverage comfort corridor of 3 to 4 times. When adding in Velocity, which closed earlier this month, and as we progress through our Q1 seasonal working capital needs, we anticipate we will be near the high end of our corridor at the end of Q1. We remain willing to temporarily go above our comfort corridor for M&A that meets our criteria.

With that stated, our strong free cash flow and the strength of our balance sheet provide flexibility to continue executing on strategic M&A opportunities.

Further on capital allocation, as noted in our earnings release, the board approved a 9% increase to our regular quarterly dividend to our Class A stockholders of $0.12, payable later next month. This increase reflects our strong earnings growth and confidence in our outlook. We are pleased to grow the dividend and return capital to shareholders at a sustainable and modest level, all while executing on a record year of M&A in 2024.

Based on our current forecast, we expect to record GAAP interest expense, which is net of interest income on our operating funds and includes the recent debt raise of approximately $225 million in 2025, with $57 million in the first quarter.

Now turning to guidance. As Pat, Tim, and Jeremiah mentioned, we continue to be excited about our long-term growth opportunities and value proposition. As a result, we are guiding full-year 2025 organic revenue growth to be between 11% and 13%. We believe we will continue to see the benefits of our diverse portfolio, with particular strength in casualty across our specialties and in our underwriting management specialty, which will see the benefits of prior year M&A as we lap 12 months of ownership, exactly as Pat has signaled in many of our prior calls. We believe our growth will be driven by sustainable secular factors and our unique competitive position. We expect strong flow into the E&S channel that will more than offset rate softness in property.

In addition, we are guiding adjusted EBITDAC margin for the full year 2025 to be between 32.5% and 33.5%. In 2025, we expect margin expansion will be driven by contributions from M&A and underlying margin expansion, which will be partially offset with a headwind for fiduciary investment income due to lower rates. We will also be taking the opportunity to fund a larger than average investment year with the remaining saving from ACCELERATE 2025.

We will balance delivering for today and investing for the future. Importantly, looking further out, we believe we are on track to hit a 35% adjusted EBITDAC margin by the end of 2027. With our differentiated business model focused on growth markets, ability to provide innovative solutions to clients, an empowering and entrepreneurial culture, unique relationship, scale and scope, we are positioned for success over the long term.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Elyse Greenspan from Wells Fargo. Your line is now live.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Good evening. My first question is just on the organic guide and I guess the outlook for property for this year. I know you guys said modest growth in property, so I'm just trying to get a sense within the 11% to 13% organic revenue guide, what are you assuming for property relative to the overall guidance?

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Hi, Elyse, this is Janice. Happy to take the question about the organic growth guide and then I might give it over to Tim to give a little bit more specifics on the 5%. We are really pleased with our 12.8% organic growth this year, which Pat noted is our 14th consecutive year of double-digit organic growth on top of our toughest quarterly comp. Looking ahead to 2025, we're guiding organic revenue growth between 11% and 13%. As you noted, at a high level, we've got our usual drivers of organic growth that are expected to play out both in secular trends and also strategies that are unique to Ryan Specialty.

That includes risks increasing and becoming more complex, retail brokers growing organically and inorganically, panel consolidation, and of course, the E&S market outpacing admitted market. That, coupled with our ecosystem of excellence that supports our ability to innovate, evolve, and win due to our empowering and entrepreneurial culture, strategic relationships, and position of trust and our scale and scope of expertise.

More specifically, the underlying assumptions in our guidance is strong new business opportunities and of course casualty. As Tim mentioned in his comments, casualty will continue to be a strong contributor to our growth across all of our specialties. We'll continue to see growth from underwriting managers, which will be bolstered by our recent M&A as we lapped 12 months of ownership, and we're growing more bullish on professional lines as our brokers have been resilient and resourceful and identifying new opportunities for growth, which is, in our DNA, expanding to new opportunities such as healthcare and E&O classes like architects and engineers.

We do expect modest growth in property, but we expect it to be strong over the long term. And together, our diverse portfolio, which is based on differentiated talent and niche specialization, enables us to achieve double-digit organic growth in any environment. So, we will remain positioned to execute and provide value to our clients. Tim, anything you want to say further on that?

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

A

Sure. Hi, Elyse. Property pricing is still soft near term. However, flow remains strong and our ability to win market share of both new and renewal business is more than offsetting the pricing. So, we continue to grow our property despite these headwinds.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you. And then my second question was on the margin. I recognize there's a lot going on this year, right, with just core leverage, right, some M&A coming in, and then the ACCELERATE program. But then you guys had said – you had said I think in the prepared remarks that it was going to be a higher-than-average investment year. Can you just expand or put some numbers around that?

And then, I guess my second question related to margin is, depending upon where you end 2025 relative to the guidance you laid out, you said that you'll be at 35%, right, in 2027. So should we expect, I guess, the incremental improvement to be split between 2026 and 2027 to get to the 35%?

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Okay. Elyse, Janice again here. So, just to reiterate, for 2025, our guidance, we are really pleased with the over 200 basis point expansion that we had for 2025 – for 2024, rather, and our guide for 32% – sorry, our guide for 32.5% to 33.5% for 2025, we see those drivers of growth coming from M&A, underlying scaling, and the Fid headwinds. You acknowledge the fact that ACCELERATE 2025 is really affording us the financial flexibility to be able to invest in our platform bigger than we have in the past.

Jeremiah would be happy to give you some background on some of the additional investments there. But just stepping back, in order for us to deliver industry-leading growth and expand our margins over the long term, we have to reinvest in our platform. We've always been focused on making longer-term investments, and sometimes we are opportunistic in doing so, and using ACCELERATE is the opportunity to do that and providing the flexibility. So we'll be balancing delivering today for investing in the future. And we're really pleased with [indiscernible] (00:37:31) another year of potentially more than 100 basis points at the top end of our range.

Jeremiah, anything else you want to say on the investments?

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.

A

No, I think, Elyse, you've been following us enough to know that we are always making long-term investments in our platform and sometimes we're even opportunistic, like in 2022, we had a chance to make an oversized investment in talent. That was definitely the right long-term business decision, but it impacted margins the following year. Like, we are so thrilled right now with what we've achieved in ACCELERATE because we've got the flexibility to make and invest – continued investments in talent and our platform this year that is, I won't give an actual number, but it's a multiple of what an average year is, even proportionately and still bring potentially over 100 basis points to the bottom line. We think it's a great balance of near-term and long-term growth, but also showing that progressing to the 35%.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then just one last one, just on understanding correctly, is 35% is the exit run rate for 2027, meaning we'll see it in 2028 or is it for full year 2027?

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

The expectation would be for full year 2027.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC
Q

Thank you.

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.
A

Mm-hmm.

Operator: Thank you. Next question today is coming from Brian Meredith from UBS. Your line is now live.

Brian Meredith
Analyst, UBS Securities LLC
Q

Hi. Yeah, a couple questions here for you. First one, I'm just curious, Tim, can you maybe break out a little bit on the organic growth expectations for 2025 between wholesale binding and underwriting management? Kind of how should we kind of think about the growth rates there?

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.
A

Yeah, I'll take that one. So, as you know, we don't guide organic growth by specialty, but all of our specialties have the properties to be able to achieve double-digit organic growth.

Brian Meredith
Analyst, UBS Securities LLC
Q

Do you expect one to grow faster than the other?

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.
A

You've seen the contributions that we've had from M&A this year, we've done a lot of acquisitions within the delegated authority platform, so certainly that's going to be an area of growth for us that I've mentioned previously. But we do have tailwinds from casualty, modest growth from properties across the board.

Brian Meredith
Analyst, UBS Securities LLC
Q

Got you. That's helpful. And then I guess the second question, given where you've talked about leverage being at the end of the quarter, do you think M&A is going to slow, call it, last nine months of the year?

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.
A

I hope that you noticed that we added an additional metric this quarter to be able to give everyone a better understanding of the borrowing capacity that we do have. We still have, as Tim mentioned, a robust pipeline of M&A opportunities and we believe we have the capacity to address them.

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.
A

If it slows at all, it won't be because of leverage availability. That's why we added the additional disclosures to show that we've got – we anticipate ample borrowing capacity through the year. In any given period, we're constrained by the availability of assets that meet our three criteria. So, we've got a great pipeline. We're ambitious about it. As you know, we're not going to force any deals, but we think that we still have the appetite and the financial flexibility to execute on a lot.

Brian Meredith
Analyst, UBS Securities LLC

Q

Terrific. Thank you.

Operator: Thank you. Next question today is coming from Meyer Shields from KBW. Your line is now live.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks so much. First, I guess, probably this is a question for Janice. What are the interest rates embedded in the fiduciary investment income forecast for 2025? In other words, I basically want to get a sense of what you're looking for and how that could change if interest rates move in a different direction.

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yeah. We're using the forward curve.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, simple enough. And then I guess last time in 2022 and there was significant investment going forward, there was a lot of turmoil in the marketplace because of, I guess, a failed large broker merger. And I was hoping you could fill in maybe what's presenting the opportunity for what sounds like maybe above average annual investment?

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.

A

Meyer, what's triggering the opportunity for above-average investment?

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah. Basically, is there something external, internal?

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.

A

Yes. So, the investment program that was ACCELERATE 2025 was not the end of our investments in efficiencies and data and AI, in fact, that we think that to win in the future, firms are going to have to make even bigger investments and we're trying to be proactive, so there's not an external force necessarily. But when we have the flexibility to make big investments that we know are going to be important to continue winning and bringing additional value to our clients and still drop about 100 basis points to the bottom line, we're going to do that.

And I don't think that this will be the last year that we have the capability to walk and chew gum at the same time. Like that's – that is the strategy going forward as we march to 35%.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, perfect. Thanks so much.

Operator: Thank you. [Operator Instructions] Our next question is coming from Rob Cox from Goldman Sachs. Your line is now live.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Hey, thanks. So, yeah, just on these investments, I'm just thinking this probably helps support the organic growth into the future. So, I just wanted to gauge the conviction in sort of the multiyear organic growth above 10%. Do you still have that conviction post 2025?

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

A

Definitely, definitely. We were built for double-digit organic growth from the beginning. We've gotten stronger, these acquisitions adding a lot of firepower to our delegated authority, which is, as you know, growing rapidly, the whole phenomenon of delegated authority. That AM Best study really opened the doors for a lot of people to understand the power of the trend change in delegated authority. So we've anticipated that and that's why those seven acquisitions were focused on expanding delegated authority.

And as you know, our founding thesis was based on providing innovative solutions, innovative insurance solutions to brokers, agents and carriers. And the young carriers is very much a part of delegated authority. And AM Best confirms that the industry is moving heavily towards delegated authority, in spite of what some people would believe. But we're long-term believers in that and history is proving it to be right.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Appreciate that. Thank you. As a follow-up, I wanted to ask about personal lines. I understand that Ryan is fairly small in personal lines today, but I was hoping you guys could walk us through the opportunity you have there and frame the exposure.

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

A

Sure, Rob. We do very well in personal lines. High-net-worth aside for a minute, we have electronic trading platforms there. We have programs across the country, that's always been a very, very strong niche for us. But this new high-net-worth opportunity has been incredible. And we moved very quickly, we've built an MGU, a de novo MGU in London, that's been very successful and we have this joint venture with AIG in PCS that's just getting off the ground, early stages, but tremendous opportunity for us to grow the business profitably there. Our clients need us, there is more and more opportunities, lots of non-renewal notices going out, not just California and Florida, across the country and so tremendous demand for the solutions and we're perfectly aligned and have lots of product and solutions for our clients. We're excited about that specialty.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, Tim.

Operator: Thank you. Next question is coming from Mike Zaremski from BMO Capital Markets. Your line is now live.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Hey, good evening. Back to organic growth and the outlook. Just want to be clear about potential seasonality. We know that I believe the highest quarter on property is 2Q followed by 4Q. Just curious, given the dynamics you see in the marketplace and your outlook, should we expect some seasonality due to property, for example, or anything you want to remind us about as we think through the 11% to 13% for next year?

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yeah. Mike, I would say seasonality is consistent with what you've seen before. Q2 will be a tough comp for property for us. But otherwise I don't think there's anything new that we would want to point out seasonality is similar to what you've seen in the past.

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

A

I think it's important to focus in on a little retrospective look. In the fourth quarter of 2023, you'll recall property rights were rapidly accelerating. So, it was a very, very challenging comp because by the fourth quarter, particularly the second half of December, all of December, but particularly the second half of December, decelerating rates, probably driven by what some people viewed as a relief [indiscernible] (00:48:22) a benign hurricane season.

Well, we were lucky; it didn't hit Tampa. It went down to Sarasota. But if it had hit Tampa, it would have been a different story. So rates were decelerating, but the wildfire is just a recognition, we believe, and I think others would support this, that property is going to be a growing line of business in 2025. It's hard to forecast precisely what that is because of the actions taken by some carriers in decelerating rates, but the risks are out there and they're expanding, you can see the wildfires, and that can translate into further damage with spring rains.

So, property risks are still there, and so long range, long term, we're very bullish on our property growth, witness terrific investment in Velocity. Add to that, that we were able to bring FM Global into initial investment in the E&S market, property only obviously. But that's attracting some very sophisticated capital [indiscernible] (00:49:52) support the future and we're very excited about the talent that we got in the Velocity...

Operator: We seem to have lost the speaker line. Are you there?

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Yeah, I'm here, sorry.

Operator: Mike, please stand by...

[indiscernible] (00:50:21)

Operator: No, you're fine. Speakers, can you hear me? We cannot hear you.

[Technical Difficulty] (00:50:23-00:50:41)

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

We can hear you.

Operator: Please go ahead.

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Okay.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Okay, I'll ask a follow-up question...

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yeah.

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.

A

Mike, did you get that last response from Pat on property and Velocity and...

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

I got the gist. I don't know, maybe he was – Pat was cut off towards the end on FM Global and being excited about those capabilities. Your call if you want to elaborate more or I can move on. Hello?

[Technical Difficulty] (00:51:26-00:51:40)

Operator: And please stand by everyone. We do apologize for the inconvenience. I just want to make sure, Mike, you can hear me, correct, sir?

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Yes.

Operator: Thank you.

[Technical Difficulty] (00:51:55-00:52:48)

I'm going to play some music in the meantime. Everyone, as soon as the speakers rejoin, I'll let you know. Please standby, again, please do not disconnect. We do thank you for your patience.

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

Hello?

Operator: Yes, speakers have rejoined. One moment, please. Okay, everyone. You're now live.

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

Rob (sic) [Mike] (00:52:52), this is Pat, I was answering the property organic growth question, and I referred to rapidly accelerating property rates in the fourth quarter of 2023. And then as we all know, property rates started to decelerate in 2024, particularly in Q4, but most particularly in December. And that was a very tough comp, so we were really pleased with the 11% organic growth.

And what I mentioned is that we made a major investment and commitment – delegated authority expansion with the seven deals we did, particularly Velocity. And we brought in some outstanding underwriting talent and we brought in new high-quality, very sophisticated capital to back Velocity's property CAT facility, and we were very pleased to bring FM Global in and getting them to initially invest in E&S property, they've never done that before.

So, the whole commitment to property, underwriting, and distribution really indicates how bullish we are for the future of property for our firm. So I hope that disruption of communication didn't disrupt your understanding of our feelings on this subject.

Michael Zaremski
Analyst, BMO Capital Markets Corp.
Q

Yes, loud and clear. Can I ask a quick follow-up? Moving back to the investments topic and a follow-up to Meyer's question too. So, most of your expenses are compensation, which we think about as people. So – and I think back when you – in the last kind of higher investment period, it was more people you invested in. So, will this cycle be people, or is it more you've kind of mentioned tech investments or AI, so is it a different flavor this time or is it kind of the same playbook as we've seen in the past?

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.
A

That's a great question. When we talk about investments in the platform, it's always a mix. But when we think about the path to 35%, where you're going to see the majority of the saves is in comp and that's because the tools that we're giving our people, the efficiency of our processes and our systems is going to make them more efficient. So, the majority of the path to 35% will actually go through comp just because of how much more efficient the workforce will become and we'll sort of bend the compensation cost curve even further over time.

Michael Zaremski
Analyst, BMO Capital Markets Corp.
Q

Thank you.

Operator: Thank you. Next question is coming from Wes Carmichael from Autonomous Research. Your line is now live.

Wes Carmichael
Analyst, Autonomous Research US LP

Q

Hey, thank you. Good evening. I just want to come back to the margin guidance for 2025. I think in the prepared remarks, you talked about kind of three moving pieces of the benefit from M&A, some underlying expansion and then fiduciary income being a headwind. Just hoping you could quantify or help us understand how much underlying improvement you're expecting in 2025.

Janice Marie Hamilton
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

I think we are going to break out the individual components of the guidance, but I think it's important to remember that M&A will contribute and will fall into our underlying margin expansion from the platform over the next 12 months as well. So, to think about them separately would be potentially misleading.

Jeremiah R. Bickham
President, Ryan Specialty Holdings, Inc.

A

And the underlying expansion that accompanies our double-digit organic growth is going to contribute to the remainder of the other way to get to 35% as well.

Wes Carmichael
Analyst, Autonomous Research US LP

Q

Okay. Understood. In terms of the organic growth piece, could you just maybe provide a little bit more color on commissions for new business and renewals and what's driving your confidence there?

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

A

Our new business flow is very strong, double-digit flow, the stamping offices all validate that for the quarter. As you know, we had a very strong 2024, led by casualty and surprisingly including professional liability rebounded very nicely and we're starting to see some real measurable growth there. So that helped us offset the headwinds in property. The overall casualty market continues to be very firm, led by long-tail, high-hazard classes of business like transportation, habitational, construction, certain product liability, all loss leaders in the reinsurance world and we're clearly leading that casualty segment.

Again, professional liability, making a great comeback for us. It's clear proof of the incredible resiliency and the strength of our industry-leading national professional liability team. They continue to find new opportunities to grow and expand their market share. It's kind of a common trait of our RT brokers. When there's adversity in the marketplace, they search for other areas of growth; it's in their DNA. And last, just a quick update on binding and programs, just incredible performance there. They had a fabulous year, continue to experience industry-leading growth, including the Connector, our small commercial digital trading platform, having some explosive growth that we're very excited about.

Wes Carmichael
Analyst, Autonomous Research US LP

Q

Thank you. Appreciate it.

Operator: Thank you. We've reached end of our question and answer session. I'd like to turn the floor back over for any further closing comments.

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

Well, we appreciate everybody's interest and patience with this technological disruption, but we certainly appreciate your questions. We're very happy to meet you quarterly and we look forward to the next quarterly meeting. Thanks for your support and the interest.

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

Bye Bye.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.