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Ryan Specialty Holdings, Inc. (RYAN)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for joining us today for Ryan Specialty Holdings' First Quarter 2025 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 statements. 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 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 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 and Executive Chairman of Ryan Specialty, Pat Ryan.

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

Good afternoon and thank you for joining us to discuss our first 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 Head of Investor Relations, Nick Mezick.

The first quarter represented a strong start to the year. We grew total revenue 25%, driven by strong organic revenue growth of nearly 13%, and 13 percentage points from M&A. This is as our largest contribution from M&A in over three years partially offset by a slight decline in fiduciary investment income. Adjusted EBITDAC grew 27.5% to $201 million. Adjusted EBITDAC margin expanded 60 basis points to 29.1%. Adjusted earnings per share grew 11.4% to $0.39. A very good quarter by any measure.

Our growth was driven by strength in casualty across all three of our specialties and modest growth in property, which is a credit to our ability to deliver value for our clients in a challenging property market. We also had significant top line contributions from recent acquisitions, including Velocity Risk Underwriters, which closed at the beginning of February. In April, we announced the acquisition of USQRisk, and are very excited to welcome these new teammates into the Ryan Specialty family. Our robust M&A activity over the past two years and since our founding has advanced various aspects of our strategy, notably significantly expanded our total addressable market. We added expertise, augmented our capabilities to serve our clients across market segments, and broadened our international footprint. We added many new programs and unique MGUs, which provide us with greater advantages to extend our lead in delegated underwriting authority now and over the long term.

Stepping back, I want to spend a minute on the current environment. There's been an increased level of uncertainty around global trade and the health of the broader economy. The read through of this uncertainty into the real economy, inflationary pressures, and capital markets creates elevated risks in the near and medium term. With our diversified set of businesses and cycle-tested business model focused on specialized expertise and industry leading talent, we believe we're well-positioned to navigate the challenging near-term environment, and win over for the long term, just as we've done for the past 15 years.

Moving ahead, we expect that we will continue to deliver innovative solutions to our clients, generate industry leading organic growth, execute our M&A strategy, and increase profitability while investing in our platform. All of this will drive significant additional value for our shareholders and ensure we remain a top specialty insurance services firm in our industry.

I'm pleased to turn the call over to our Chief Executive Officer, Tim Turner. Tim?

Timothy W. Turner

Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

Thank you very much, Pat. Before discussing the results, I wanted to expand on Pat's comments and highlight the durability of Ryan Specialty's business model with three particular points. We operate in the resilient specialty and E&S market. Many of our products are compulsory and we have built a differentiated platform with top-flight specialized talent. First, insurance premiums have a long track record of growth. It is important to remember that US premium growth turned negative in aggregate only once over the past 60 plus years. As the world continues to become riskier and more complex, risks are moving into the specialty and E&S marketplace, which is equipped to offer solutions that would otherwise not be available. This market 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. This has also led to a secular shift in how capital is positioned in the broader insurance market. Carriers that have historically participated only in the admitted market are making significant commitments to E&S, and new capital is also flowing in. Looking forward, we believe the E&S market will both continue to grow in importance and take share of the overall insurance landscape.

Second, our wholesale brokerage and delegated underwriting authority businesses provide largely compulsory insurance products. Many, if not most businesses must have insurance. And as they grow, their needs become more and more complex.

And third, we've built the best platform in the industry, driven by our world class talent. Our specialized expertise and wholesale and delegated authority, as well as our alignment within it, provide our clients and trading partners with differentiated value and innovative solutions. As a result, we have created incredible trust and significantly deepened our relationships with the same clients and trading partners, which we believe provides us with a tremendous runway for continued growth for years to come.

Turning to results. We had an excellent first quarter driven by strong organic growth and significant contributions from our recent acquisitions. Now diving into our specialties, each of which grew their top line by double digits. Our wholesale brokerage specialty had another strong quarter. In property, we again executed well and still delivered modest growth despite a very challenging environment. Property pricing decline continued along the same trend that we experienced in the fourth quarter. However, despite the softer pricing, we overcame these trends. We again took share of the strong flow into the channel, won head-to-head against our competitors, and had another quarter of high renewal retention. This is a testament to our tenacious and ultra-competitive RT brokerage team. We know how to navigate adversity in the marketplace, find new opportunities to grow, and expand our market share, and importantly, find ways to win. It's in our DNA.

As a reminder, the second quarter is our largest property quarter, and the second quarter of 2024 was the last very strong quarter for property before rates began to decelerate, setting up a challenging comp for the second quarter of 2025. While we expect rates to remain competitive in the near term, we remain very bullish on property as an important contributor to our growth over the long term. Our casualty practice had another excellent quarter with strong new business and high renewal retention. We saw strong growth for habitational risks, transportation, construction, and healthcare.

Our transportation practice saw another quarter of strong flow. Typical loss trends driven by both economic and severe social inflation are driving carriers to increase rates, pullback appetite, and in some cases, exit markets completely. Risk in each of these classes and many others are continuing to move into the specialty and E&S markets. We see the E&S market responding in a disciplined manner with carriers tightening distribution lines, re-underwriting, changing appetite, raising prices and focusing on limit management.

We believe the need for the specialized industry and product level knowledge that 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 includes both binding and underwriting management. Our binding authority specialty had a very good start in 2025, driven by our top tier talent and expanding product set for small tough-to-place commercial P&C risks. We continue to believe panel consolidation and binding authority remains a long-term growth opportunity, and we are well-positioned to capitalize. Meanwhile, our underwriting management specialty had another excellent quarter. Results were driven by strong organic growth, particularly in casualty and transactional liability.

We also had meaningful contributions from recent acquisitions, which added over 50 percentage points of growth to the top line of this specialty. Our strategic positioning allows us to capitalize on both organic and inorganic growth opportunities. We believe this combination, paired with our skill and discipline to manage the business through the insurance cycle, ensures our ability to deliver consistently profitable underwriting results, growth and scale over the long term. We have repeatedly 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 meaningful way and the standard market has not meaningfully impacted the rate or flow 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.

Turning to M&A. Today we announced the closing of our acquisition of USQRisk. USQ adds top talent and differentiated intellectual capital through our alternative risk offerings, along with approximately $11 million of incremental annualized revenue to Ryan Specialty. Our new teammates will bolster the capabilities that we bring to our retail broker clients in this highly technical and valued segment of the market, with a focus on nontraditional insurance solutions for risks which the traditional insurance market cannot underwrite efficiently, USQ has carved out a niche in each of the property, casualty, and transportation markets. Further, on the M&A front, our pipeline continues to be robust, including small, midsized, and large deals. 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 another strong quarter for Ryan Specialty. I'm proud of our entire team for continuing to deliver outstanding results and adding 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're pleased with our strong first quarter performance. On our last call, I noted our unique position to make even larger, long-term investments in our platform. This year to support our growing business while also consistently delivering margin improvement. In the quarter, we made great progress on all these fronts. We continue to recruit, train, and develop top flight talent, advance our operations, and integrate numerous recent acquisitions, and lean into new technologies all while expanding our margin. We continue to be a growth-minded business and remain committed to balancing investments and margin expansion. We believe that these investments in our business today, in talent, in de novos, acquisitions, operations, and technologies that leverage data and AI will deliver strong, sustainable growth well into the future.

With that, I'll now turn the call over to our Chief Financial Officer, Janice Hamilton, who will give you more details on our financial results. Janice?

Janice Marie Hamilton

Chief Financial Officer, Ryan Specialty Holdings, Inc.

Thanks, Jeremiah. In Q1, total revenue grew 25% period-over-period to $690 million. Growth was once again fueled by organic revenue growth of 12.9%, substantial contributions from M&A, which added 13 percentage points, and contingent commissions as we delivered strong underwriting profits for our carrier trading partners, and was partially offset by a decline in fiduciary investment income. Adjusted EBITDAC grew 27.5% to $201 million. Adjusted EBITDAC margin expanded 60 basis points to 29.1%, driven by another quarter of strong revenue growth and recent acquisitions, partially offset by headwinds from fiduciary investment income as well as the timing of certain expenses. Adjusted earnings per share grew 11.4% to $0.39. We had a GAAP net loss of $4 million in the quarter. Similar to our Socius transaction in the third quarter of 2023 because we re-organized Velocity from a C-corp to an LLC upon closing, we incurred a non-recurring, non-cash deferred tax expense at the public holding company, creating a GAAP net loss of $0.22 per diluted share. Since we have no plan to sell Velocity, we do not expect the tax expense will ever be realized in cash. This reorganization was the right strategy and will result in an excellent outcome for shareholders, particularly with regard to go-forward tax efficiency. As noted previously, we will continue to pursue a similar strategy with respect to any future acquisitions of C-corps.

Our adjusted, effective tax rate was 26% for the quarter. For 2025, we expect our adjusted effective tax rate may move slightly based on geographic mix and tax law changes.

Turning to capital allocation, M&A remains our top priority now and for the foreseeable future. We ended the quarter at 3.8 times total net leverage on a credit basis, which reflects the acquisition of Velocity, and seasonal working capital needs in Q1. While this is at the high end of our leverage comfort corridor of 3 times to 4 times, we do remain willing to temporarily go above our comfort corridor for M&A. that meets our criteria. Our strong free cash flow and the strength of our balance sheet provides flexibility to continue executing on strategic M&A opportunities. Based on the current interest rate environment, we expect to record GAAP interest expense, which is net of interest income on our operating funds of approximately $217 million in 2025 with $59 million to be expensed in the second quarter.

For the full year 2025, we are maintaining our guidance for organic revenue growth of between 11% and 13%, and adjusted EBITDAC margin of between 32.5% and 33.5%. Regarding the recent macro uncertainty, we continued to monitor the environment closely for any potential impact on our business. As Pat and Tim noted, we believe our business model is resilient given we operate in the specialty and E&S market, the largely compulsory nature of our product set, and the differentiated platform and unparalleled expertise we offer our clients and trading partners.

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. [Operator Instructions] Our first question comes from Elyse Greenspan from Wells Fargo. Please go ahead. Andrew, your line is now open. Please go ahead and ask your question.

Andrew Kligerman
Analyst, TD Securities (USA) LLC

Q

Hi. Yes. Can you hear me? Can you hear me?

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

A

Yes, Andrew, we can hear you.

Andrew Kligerman
Analyst, TD Securities (USA) LLC

Q

Okay, great. Sorry about that. So I'm looking at that amazing revenue growth that you just put up. And it's about – it's double-digit higher than the organic growth. And historically, I was, kind of, thinking maybe upper single digits, upper mid-single digits. Could you talk a little bit about the pipeline right now, and whether at minimum, upper single-digit is sustainable in terms of inorganic revenue growth?

Timothy W. Turner
Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

A

Yes, be happy to. Our flow of business into the channel continues to be double digits, strong double digits, validated by the stamping offices. We're seeing heavy flow in most of the specialty channels led by casualty, but property was surprising while we saw continued rate deceleration like the fourth quarter, we were able to manage those headwinds, and we had some modest growth. So our M&A pipeline in particular is very, very robust. We have tremendous opportunities in small, medium sized acquisitions, and some very large ones as well. So remain very optimistic on our opportunities going forward. The market itself is very frothy, and we're excited about the opportunities in 2025.

Andrew Kligerman
Analyst, TD Securities (USA) LLC

Q

And maybe following on to that, you mentioned the USQRisk acquisition, and it added $11 million in incremental revenue, which sounds very small to me. And I think what impresses me is Ryan's ability to really scale that up. I mean, is that something that could turn into $50 million or $100 million in revenue, and not too long? And how might you do that?

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

A

Well, this is Pat. I'm not going I'm not going to touch the growth rate you just articulated. But I would say this, this is very strategic, it's very strategic. And that since day one, our investment strategy has been to build a suite of products and services that can deliver exceptional organic growth throughout the cycle and over the long term. As you know, we've been constantly innovating, launching new products, and adding capabilities, all the while expanding our total addressable market, our TAM. So this strategy really has positioned us well, we believe, to sustain our double-digit organic growth, and frankly overcome the challenges of scale, harder to grow the larger you get. Our market shares, which we're experiencing now in property, and we've done this over the last 15 years. So we do this through adding talent both from within and outside of the industry, and very much through acquisitions that we made. And you put your finger on the key one, the acquisition of USQRisk. Here, we are really deepening our strategic alliance with Nationwide Mutual. I think you all understand this is a very unique alliance and relationship they have with Nationwide Mutual.

The great thing about this alliance is we both understand what we bring to the equation and with the other brokers. And we're very proud, each of us, as to the expertise that we bring. So we've been doing this now for on our sixth year, and we keep adding top new talent both from within and outside of the industry. And this Nationwide Mutual alliance demands that we invest in new product development, and add key talent. So with USQRisk, we brought in 17 highly skilled, sophisticated experts at our underwriters and actuary. That's a key talent addition through this acquisition to fulfill the opportunities that Nationwide Mutual and we have together agreed that gives us a long runway of organic growth and margin expansion.

Additionally, prior to closing of this acquisition today, we added eight other really highly skilled professionals from different walks of life that fit the strategy and bring tremendous intellectual capital differentiation. So by adding this differentiated talent capabilities will not only expand our TAM, we add a new cylinder of powerful growth to our growth engine, and we very much advance our core mission. And I just want to remind everybody, we've stuck to this mission from founding. The plan is to provide innovative services to brokers, agents, and very importantly, insurance carriers. And that's what we're doing here with our strategic alliance partner, Nationwide Mutual. So you can tell from all of this, that needless to say, we're pretty very excited about this acquisition and the overall opportunity that it brings. And you'll forgive me if I won't answer the compounded growth rates that you threw out, but we're very enthusiastic.

Andrew Kligerman
Analyst, TD Securities (USA) LLC

Q

Now, that was very helpful.

Operator: Thank you. And our next question comes from Alex Scott from Barclays. Please unmute your line and go ahead.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Hey, thanks for taking the question. The first one I had is on the technology spend. And if you could, kind of, give us a little more color on some of the things you're doing, and how that will contribute to growth and operational efficiency in the future. And just an idea too around whether these will continue or they were more loaded into the first quarter?

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

A

Yeah. So we are trying to streamline and digitize as much of our workflow processes as possible. We still have system consolidation work to do. There's a lot of efficiencies through investments in our workbenches that we can do. And we are starting to experiment with AI solutions across various business units. So there's nothing individually that moves the needle this year but what it does in aggregate is continue the trend of reducing cycle times, speeding up answers, and insights to clients, and processing everything, especially the non-strategic client-facing activities in the swiftest, most cost efficient fashion. So what that does is, equip our producers to be as good and as fast as they can, and helps us spend money on talent rather than process. And most importantly, we're able to balance those investments with exceptional growth and margin improvement along the way.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

That's really helpful. Thank you. Next one I have is on 2Q, and you having a more property heavy quarter potentially ahead of cat season. Could you frame for us, maybe what a normal portion of premiums, kind of, property versus a heavier 2Q? And I hate to be short-term about it. I just want to make sure we have the right expectations heading into potentially a more difficult comp just given property is, sort of, center of the storm here.

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

A

Sure, I'll take that, Alex. So as you noted, Q2 is our largest quarter for property. Tim mentioned in his remarks that it will be a tough comp that with the last quarter before rates started to decelerate, we've acknowledged from a number of quarters, that property for us is continuing to expect modest growth because of the first quarter and we will continue expect that for the remainder of the year. So while we expect property to be a large component of our Q2, which is our largest quarter overall. And so from that hopefully you can see our seasonality elements of property, but we are expecting modest growth for the remainder of the year. Tim, is there anything you want to add to that?

Timothy W. Turner
Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

A

No, I think that's very accurate. We do have headwinds, rate deceleration in property, but we're winning new business. We're retaining our renewals that new business coming into the channel is strong, and we're winning frequently in head-to-head competition. So we're confident that we can maintain our growth modest in property, and much heavier in casualty.

Alex Scott
Analyst, Barclays Capital, Inc.
Q

Thank you.

Operator: Our next question comes from Meyer Shields from KBW. Please unmute yourself and go ahead.

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

Okay. Hopefully, I'm coming through here. You've mentioned, I think maybe this is best for Jeremiah or Janice, some timing related issues on investments. And I think that probably goes to explain why the G&A ratio went up. Is there anything unusual in the compensation ratio declining on a year-over-year basis or is that just the typical organic leverage, I'm sorry, the operating leverage that we should expect?

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

Yeah. So, Meyer, I'll take that one. So you are correct. First of all, just note that we had our 60 basis points of margin improvement in the quarter, which we were very pleased about. And we highlighted within our remarks that there were some timing differences there from an overall full year margin perspective. Those timing differences actually relate to the timing of certain benefits and other related expenses coming through in the first quarter as well as some other T&E and professional services Jerimiah touched on some of the beginnings of the initiatives that we have. But also professional services that are driven by revenue generating activities. I think what you're what you're thinking about and what you're seeing is the G&A ratio worsening effectively relative to last year, but comp benefits expanding significantly. And that is really coming from where we have US Assure earning in and think about the timing of US Assure continuing to earn in over the next two quarters, first quarter, second quarter, and a little bit of the third quarter. That margin expansion is really all dropping to comp.

So there's a little bit of ACCELERATE 2025 in there from last year continuing to earn through. But really think about that as US Assure. And then, on the G&A side, that would continue as we have investments that Jeremiah alluded to, our ops and technology. So we would expect G&A to continue on a similar trajectory for comp and benefits, yeah, the margin expansion that I highlighted.

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

Okay, perfect. That's very helpful. Taking a step back, we are hearing sort of generalized grumbling from a lot of carriers about MGAs. And I'm wondering whether the fact that you've got the underwriting management business, does that pose any challenges to the relationship you have with carriers in the wholesale specialty?

Timothy W. Turner
Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.
A

No, actually, it's been well-received by majority – the vast majority of our partners. They understand the parallel to the brokerage side of it, the importance of the delegated underwriting authority space, not just in MGUs, but in the program space, the binding authority space. So it's very, very much aligned with these carriers. Sure, we hear an occasional question or grumbling about it, but I would say that's the minority by far. Most of the E&S carriers, 110 of them now that are dedicated to the wholesale distribution channel, have a delegated – a specific delegated underwriting authority department. So we're engaging with them, we're strengthening our trading relationships with them, and they have a lot to gain, and a lot to win from the partnership. So it's very much positive and well-received today.

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

Q

All right. Fantastic. Thank you.

Operator: [Operator Instructions] So our next question will come from Robert Cox from Goldman Sachs. Please unmute yourself and go ahead.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Hey, thanks for taking my question. Yeah, I was hoping you could just give us a sense of what you've seen through April and maybe in April from an economic perspective. I know some other brokers have called out construction as an area of some economic pressure. So I was hoping – wondering if you saw that, and if you did, if you could remind us of your exposure there. And just broadly, what you're seeing.

Timothy W. Turner
Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

A

We're continuing to experience very strong construction results. We're not seeing any real change, noticeable change in the market thus far this year. The infrastructure rollup space is strong. Obviously subs, GCs and artisans very strong across the country and even residential construction remains strong. So we really haven't seen any indication of a slowdown.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Awesome. Thanks, Tim. And Tim, I wanted to go back to your comments on the submission flow. It sounds like you guys are taking share of the submission flow. I think you called out property in particular in light of the pricing pressure there. Do you have a sense generally like where you're taking share of the flow? I assume it's not primarily from your large wholesale peers, but I was just wondering if you could provide some color.

Timothy W. Turner
Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

A

Sure. Well, there's this double digit increase in flow that's coming into the channel. So that's one of them. But another phenomenon that is nowhere near coming to the end of the line would be the consolidation of the use of brokerage intermediaries. Jeremiah talked about it a lot. We're really in the, probably, the middle stages on the brokerage side of it, in the top 100 retail broker community, lots of opportunities in Tier 2 and Tier 3. Tens of thousands of retail brokers yet to consolidate brokerage. And in the delegated underwriting authority space, this is the exciting part. That's the MGU again programs and binding authorities we're in the early stages of the consolidation. So tremendous opportunity to really grow exponentially there over just the consolidation of that business. So we're out RFP, we're out presenting, we're out using all of our tools, our digital trading platform, our strong, deep bench and binding authorities. And we're very optimistic about growing that with panel consolidation.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: Our next question comes from Mike Zaremski from BMO. Please unmute yourself and ask your question. Mike, your line is unmuted. Please go ahead. Okay. It seems that we don't have any audio coming from your side, Mike, so we'll move back to Elyse Greenspan. [Operator Instructions]

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Hi. Can you guys hear me?

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

A

We can.

Timothy W. Turner
Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

A

Yes.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. Sorry about that earlier. Thanks. So I guess what I was going to ask upon, I think I mean, Alex did touch on, but I want to come back just to the seasonality. Is it fair to assume within the guidance, I guess, just from a quarterly perspective that Q2, and then I guess, also Q4 right would be lower growth quarters because of the higher property concentration? And then I guess I'll throw in a second part to that question. It sounds like you guys are in the guidance you're assuming like some continued growth in property this year. So are you assuming that rates still can continue to decelerate from where they are today as we go through the rest of the year?

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

A

Okay. Okay, Elyse. So I'll take that one and then if there's anything, Tim, you want to add to it, please go ahead. So I mentioned I think we've said before, we don't guide by quarter. So the seasonality point that I made earlier just around property being the largest in Q2 and Q4, those are also our largest quarters. And Q2 is a tough comp against last year just because we did have one more quarter of rates being harder in the second quarter last year, in fact, deceleration started in the third and fourth quarter. So I think from a from a comp perspective, Q2 will certainly be the toughest.

I also mentioned that in the first quarter, we tend to see modest growth and we have that expectation in our guidance for the full year. And that's really continuation of the trends that we've seen from Q4 and through the first quarter.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Thanks.

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

A

So yeah, Elyse at least from a comp perspective related to property, things do get better as the year goes on, just as a function of math. But our underpinning assumptions for guidance don't assume like materially improved conditions in property. We're just expecting to modestly grow through that. Just to clarify.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Thanks. And then on the M&A side, right, I mean, you guys had previously told us, right, you're coming up towards the top of your leverage corridor right. And you've obviously said that you would go above depending upon deals out there. I think you guys said like the pipeline has like small-, mid-, and large-sized deals. Can you just give us a sense of like the pipeline today relative to transactions where you guys are focusing on and what we could see, I guess, in the near to intermediate term on the M&A side?

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

A

Well, we have, as Tim outlined, robust opportunity. We're clearly evaluating those opportunities as the greatest strategic fit, ability to multiply that acquisition to strong organic growth thereafter. We are going to maintain our ratio of debt versus – I think probably Janice you can pick up on that part of it. But it is a more of a buyer's market than we've had. Certainly PEs, if you're all aware of whatever – we got a aggressive new competitor on M&A with Stonepoint and CRC. But it's much more of a buyer's market today, and it is at its best. That doesn't mean that multiples will come down dramatically at all. We buy quality firms and quality firms tend to command a higher multiple, but we've been quite successful in cost synergies, and particularly revenue synergies where we have to pay a multiple a bit higher than we would like. We've been able to buy those down pretty quickly. Janice, do want to pick up on the ratio [indiscernible] (00:42:56)?

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

A

Yeah, happy to. So Elyse in my prepared remarks, I noted that we ended the quarter at 3.8 times our net leverage on a credit basis, and that was consistent with we had expected that we would end the first quarter at the higher end as a result of Velocity and as there's no working capital drag that we did see. Absent a significant amount of further M&A, we would expect to significantly de-lever by the end of the year, almost a full turn. Q1, as a reminder, is still a heavy working capital quarter for us. So, we would expect that to back down in Q1 of next year. But overall, we have ample capacity to execute on significant M&A opportunities and we said that we would be willing to go above 4 times temporarily for the right deal. But in light of the fact of expecting significant de-leverage based on our strong growth and free cash flow, we have significant amounts of financial flexibility in order to meet the pipeline.

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

A

I think the other point that I'd like to make on that is this is clear to us statement, but very much this year's M&A is next year and the following year organic growth. And so we've just done Velocity. Velocity Underwriters is performing very well and has really significant potential to expand our property book. We all believe that property decline will reverse itself just because of all the external forces. We don't know when or how fast it will reverse, but it will, we believe. And so, adding that M&A that we added last year, first part quarter of this year, and now adding USQ, we believe really set us up for strong organic growth for 6 months to 12 months out.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

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Okay. Thanks. And then I'll throw one last one in there. We saw few other big states, right, provide staffing capacity, and that data did come out today, which showed, I mean, it's for April, right, a bit of a slowdown. I know, right, it's only three states. But have you guys like, I guess any color on that or anything that you want to say relative to – you might be willing to say relative to April growth just for the company, or just in relation to just E&S, and just continue to grow what you're seeing pretty positive about.

Timothy W. Turner
Chief Executive Officer, Director; Chairman-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

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Yeah, we've been very, very enthusiastic about the stamping results of actually just some really sizable increases in state of California and a few others. We believe that's a trend. We believe there's going to be continued dumping and shedding from the admitted markets, loss leaders, and trends like transportation, areas that we've focused on and have built strong broking teams around the country, and built MGUs and made acquisitions to strengthen that practice group vertical is an illustration of how we do it. We knew transportation would continue to drive, or dumping and shedding, and we're prepared for it. High net worth. Same thing, capturing a lot of that new business today. And we expect that to grow exponentially. But lots of others, lots of other loss leaders that cause the admitted standard markets to non-renew. And we try to be right up in those spaces and again, have the broking talent, leading broking talent, and underwriting platforms to strengthen our value proposition. That strategy is working very well for us.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

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Thank you.

Operator: Thank you. There are no further questions at this time. I would now hand the call back to management for closing remarks.

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

Okay. Well, thanks for your great questions. As the course of this team about standing professionals, I'd like to reiterate how proud I am extremely proud of our industry leading nearly 13% organic revenue growth and 25% total revenue growth in Q1. We really are proud of that. I'm proud as the coach of this outstanding team. So we appreciate you taking the time to join us today and for your continued support of our firm. And we look forward to updating you on our progress next quarter. Thank you all for your interest and joining us today. Have a nice evening.

Operator: This concludes the call. Thank you.