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Ryan Specialty Holdings, Inc. (RYAN)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Noah Angeletti

Treasurer & Head-Investor Relations, Ryan Specialty Holdings, Inc.

Patrick G. Ryan

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

Timothy W. Turner

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

Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

OTHER PARTICIPANTS

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Weston Bloomer

Analyst, UBS Securities LLC

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Ryan Specialty Second Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Noah Angeletti, Head of Investor Relations and Treasurer. Please go ahead.

Noah Angeletti

Treasurer & Head-Investor Relations, Ryan Specialty Holdings, Inc.

Good afternoon and thank you for joining us today for Ryan Specialty Holdings second quarter 2022 earnings conference call. In addition to this call, we filed a press release with the SEC earlier this afternoon which has been posted to our website at ryansg.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. We encourage listeners to review the more detailed discussion of these risk factors contained in the company's filings with the SEC. We assume 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 our earnings release, which is filed with the SEC and available on the company's website.

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

Patrick G. Ryan

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

Good afternoon and thank you for joining us to discuss our second quarter results. Before diving into the quarter, I want to acknowledge the team's efforts since we went public one year ago.

I am pleased with our strong results, and we continue to have a long runway ahead of us. We remain true to our values, are well-positioned to sustainably and profitably grow our business, and believe that we will continue delivering long-term value for our shareholders.

I am also incredibly proud of our frontline, the producers, the underwriters and their teams were all competing and winning head-to-head in the field by innovating with new products and solutions, unrelenting in the pursuit of excellence, and winning a substantial amount of new business.

Our performance in the second quarter again demonstrated the strength of our business, continuing the track record of success we've established over the past 11 years. We grew total revenue 26%, led by outstanding organic revenue growth of 22%. We also achieved another quarter of double-digit growth in adjusted EBITDAC and adjusted net income on a year-over-year basis.

Our three specialties all performed very well, each generating strong double-digit growth for the quarter. Overall, I'm immensely pleased with our differentiated platform, which continues to prove that it's truly best-in-class, providing our clients and trading partners with the value and service they deserve.

Throughout the second quarter, the E&S marketplace remained robust. In fact, the overall flow of business into our E&S lines is still at historically high levels. As we previously noted, we've invested significantly in those lines where we see clear opportunities to grow in addition to bolstering the lines of business, where we have a leadership position. Through Q2, we remained in the prolonged stages of historically hard market. Broadly speaking, rates remained firm in nearly all of our lines of business, or it's moderated in certain lines, we saw a continuous upward rate movement in other lines.

In addition the standard or bit of a carrier competition, we observed on the periphery in which we flagged on prior earnings calls, is yet to meaningfully impact rate or flow in the aggregate. We continue to invest in our intellectual capital throughout the quarter, adding to already strong team and deep bench. And again, proving out that we are a destination of choice for the best talent in the industry.

Here are a few of the many examples. We've had accomplished teammates within our renewable energy line, and to our data and analytics and technology teams. We're also making significant valuable additions in many of our lines of business, spanning new industry verticals.

And the exceptional talent we've assembled since our founding, including recent additions over the last year, has been hard at work, developing new programs and introducing new products in their MGAs and MGUs, bringing in new and existing capital in addition to arranging alternative capital to support our clients.

We're also pleased to note that productivity among our brokers continues to improve and accelerate and is reflected in our strong Q2 earnings performance. This September will mark the two-year anniversary of our

acquisition of All Risks. This has exceeded our expectations in all facets. All Risks is further proof that our business model provides a powerful platform for those looking to join Ryan Specialty and validates our M&A thesis that we make strong businesses even better.

As we look ahead to the rest of 2022, we are mindful of the elevated uncertainty in the global economy and in the geopolitical environment. That said, we believe we will remain well positioned and expect favorable specialty insurance market dynamics to persist. We also continue to invest in our various strategies to take advantage of the resilient and increasing flow into the E&S market and further expand our market share.

I believe what we believe to be the most differentiated platform and deepest bench in the industry. We have benefited from a flight to quality and believe we have positioned ourselves to outperform our competition through the cycle. Moreover, we maintain a highly active M&A pipeline as we look for additional opportunities or tuck-ins and large acquisitions to enhance and differentiate our platform and capabilities.

We're working from a position of strength given our strong balance sheet and ample capacity, which enables us to act when we find the right opportunities. As I said before, we remain disciplined in our pursuit of acquisitions. Any deal we consider must meet our criteria, a strong cultural fit, strategic and accretive to our returns. Our M&A strategy is and will remain supplemental to our organic growth story. We are not a roll-up, and we do not require acquisitions to achieve our growth targets.

In summary, it was another team effort at Ryan Specialty that contributed to a fantastic second quarter and first half of 2022.

With that, I'll now turn the call over to our President, Tim Turner. Tim?

Timothy W. Turner

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

Thank you very much, Pat. As Pat highlighted, it was another outstanding quarter across all three of our specialties. In May, for the first time in three years, we hosted our annual Ryan Specialty broker and underwriting management conferences. With over 800 of our teammates in attendance, it was incredibly exciting to bring the team together again. The event, led by Pat and myself, exemplified our culture of collaboration, and you could feel the tremendous energy generated by the many talented and driven underwriters, producers, and corporate leaders all in one place.

Diving into our specialties, our Wholesale Brokerage specialty continued to achieve excellent growth across all property and casualty lines of business. In particular, cat property, including wind, flood, and fire, has been the strongest driver of new business into the non-admitted market today and an absolute stalwart for us.

As we noted on our last call, admitted markets face pressure from reinsurers de-risking their portfolios, which pushes more business into the E&S market. During the quarter, we saw an acceleration of this trend, driven by one of the most challenging reinsurance renewal cycles in a number of years. To that end, we've continued to develop innovative products and solutions in our brokerage, MGA and MGU business in these high-hazard niches.

Cyber continues to grow in importance. Due to its complexity, we believe the majority of cyber risks in America will flow into the E&S channel. We are seeing solid double-digit increases in submissions and expect that to continue. We complement our brokers with capacity from our cyber MGAs and MGUs.

Construction is another class where we continue to see significant increases in flow. Our industry-leading team, with its depth and breadth in the channel, is seeing solid double-digit increases in submissions for both infrastructure projects and habitational construction. We don't see this slowing down in the pipeline for these classes remains at historic highs.

Our transportation practice continues to grow nicely. Trucking in particular has remained very challenging, and the class of business is very risky. And as a result, that business is increasingly being directed into the E&S market. We added Crouse and Associates at the perfect time, and we remain well-positioned to capitalize on the growth opportunities in this line.

Our healthcare practice continues to grow with the addition of wholesale brokers and the development of products in our delegated underwriting authority specialties. In our binding authority specialty, we continue to experience solid growth in our small commercial lines. We have made additional progress hiring industry-leading talent, and we expect to continue to invest significantly in the specialty to drive organic growth.

We are keeping a close eye on opportunities in the delegated authority market to consolidate into Ryan Specialty, and we continue on the path toward creating the first truly 50-state binding authority operation.

Our underwriting management specialty posted another strong quarter while continuing to deliver solid underwriting results for our carrier trading partners. We are excited by the recent additions to our renewable energy MGU and the recent launch of new products. In addition, our Harleystown New York arrangement with Nationwide is beginning to bear fruit. AXSAL, our alternative risk de novo MGU; and Emerald, our excess general liability MGU, are both gaining traction and actively quoting and binding accounts.

In terms of the E&S market, as Pat mentioned, the environment remains very resilient and strong. Pricing remains firm in nearly all classes of business, and we're seeing material firming in some niche lines. After multiple years of significant rate increases, we are seeing rate decreases in public company D&O. But as Pat noted, other lines such as cyber are still firming and flow remains solid, and thus the overall E&S market is still growing at a healthy rate. As we said before, we expect the increasing flow of business into the not admitted market to continue to be a significant driver of Ryan Specialty's growth more so than rate.

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

Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

Thank you, Tim. In Q2, we grew total revenue 26% period-over-period to \$491 million, which was fueled by another excellent quarter of organic revenue growth coming in at 22.3% for the quarter, which reflects the continued tailwinds we're seeing in the E&S market, and as Pat and Tim noted, winning a substantial amount of new business.

Net income for Q2 2022 was \$70 million, or \$0.22 per diluted share. Adjusted net income for the quarter, which excludes IPO related and other unusual items, increased 15% period-over-period to \$106 million, or \$0.39 per diluted share. Adjusted EBITDAC for the second quarter grew 18% period-over-period to \$166 million, while adjusted EBITDAC margin declined 220 basis points to 33.8%.

Our margin was impacted by continued investments in the business, public company cost as we were private in Q2 of 2021, and T&E continuing to return to normalized levels. It should be noted that relative to Q2 of 2019,

which had a full run rate load of T&E expense, our margin was up 640 basis points this quarter. In addition, we completed our restructuring plan on schedule and are pleased to report that we have achieved \$29 million of run rate savings, exceeding our initial goal of \$25 million.

As Pat and Tim noted, the current environment presents a unique and very exciting opportunity to hire A-plus level underwriters and brokers, and we expect to capitalize on this opportunity and future quarters to pursue and onboard top-tier talent. We fully intend to continue investing in our platform, which allows us to generate sustainable margins while producing industry leading organic growth.

Furthermore, our balance sheet remains fortified with \$867 million of cash and cash equivalent at June 30 and our undrawn \$600 million revolving credit facilities. Based on the current forward curve projections for SOFR, we expect to record GAAP interest expense which is net of interest and income on our operating funds and includes amortization on our interest rate cap of approximately \$30 million in Q3 and \$31 million in Q4.

It is important to be mindful that this increase is partially offset by the natural hedge in our fiduciary balances, which benefit from the rising rate environment. Given our strong execution through the first half of 2022 and the resilient E&S environment, we have raised our full year 2022 outlook for organic revenue growth and adjusted EBITDAC margin as follows: We are now guiding organic revenue growth rate for the full-year 2022 to be between 16.5% and 18.0%, which is up from the previous guide range of 13.5% to 15.5%.

We are now guiding that our adjusted EBITDAC margin for the full year 2022 to be between 29.0% and 30.0%, up from the previous guide range of 28.5% to 30.0%. Our business is clearly capable of exceptional growth rates, but it's important to keep in mind that our updated guidance prudently assumes less favorable external conditions than we saw in H1 of this year.

In summary, we are very pleased with our performance, particularly given the challenging macro environment and we remain very excited about the path ahead for Ryan Specialty.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session.

[Operator Instructions] Your first question comes from Elyse Greenspan with Wells Fargo. Please go ahead.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Good evening. My first question is just starting with the M&A outlook. You mentioned bolt-on as well as larger deals. Can you just give us a sense of what's in the pipeline and how that's changed over the past quarter?

I know in last quarter's call, I walked away thinking you guys had an active pipeline and maybe close to something, and we haven't seen anything get announced. Has something happened with multiples, or is it just taking a while to close transactions in this environment?

Patrick G. Ryan

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

A

Well, the explanation of larger and tuck-ins was very specific because there are some opportunities that are larger. And when you have larger acquisition potentials, there's a lot of work to do in terms of when they're ready to sell. Sometimes it is little bit earlier than they planned, and sometimes it takes longer to get to the value that they want and identify us as a place they'd like to join, but we have to see more evidence of their projections. So, there are lots of variables.

Tuck-ins, we've looked at many, several. And either after examination through due diligence, we found that it wasn't exactly what we thought was a good fit for either cultural reasons or financial reasons. So, you're right, we haven't closed on any, but we're discrete. We only want acquisitions that will fit our culture, will be strategic, and most importantly will be or very importantly, not most importantly, very importantly, will be accretive. And as we all know, there's a lot of competition, but we don't usually compete like a lot of people do in this field – of our field of acquisitions.

And that for the majority of the people that join us, we were their destination of choice. And so, we are working with people who would like to join us and we'd like to have them join us, but we haven't reached conclusions yet.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Okay. And then my second question is on just your organic outlook as well as what you're seeing in E&S market. It sounds like you're seeing no slowdown or just business coming to the E&S market from the standard market, yet your second half of the year guidance does imply a slowdown relative to the first half. Is that just conservatism? And are you expecting any slowdown to emerge in the second half of this year?

Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

A

Hi, Elyse. The outlook for the remainder of the year is our typical prudent view and incorporates the variability of forecast. And most importantly, the fact that – and we've said this on a couple of calls by now, the circumstances

that lead to a 20% organic growth quarter are really hard to predict, quite frankly. And even if you felt like you had pretty good line of sight, it's questionable whether you know, how prudent it is to put that in the guide.

Tim can talk more if necessary, but I think he had really good color in his prepared remarks about the healthiness of the market right now and what we've seen in, I think, seven of the last nine quarters. When there have been opportunities, we've been able to significantly overachieve and that's always our goal. But the implied performance of H2 is still very strong in the double-digit territory. It would represent a great finish to the year. We're just not – we're just trying to stay prudent in terms of what we guide to.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Okay. Great. Thanks for the color.

Operator: Next question, Weston Bloomer with UBS. Please go ahead.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Hey. Thanks for taking my question. My first one is just a follow-up to Elyse's question. So if I'm interpreting the guidance right, is really the main change between kind of the first half and the second half just the amount of paper that could flow into the E&S channel, or is there some variability with potentially lower nominal GDP? Am I thinking about that correctly overall or is there may be more difficult comps from the back half of the year last year?

Timothy W. Turner

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

A

The sum, Weston, of everything that we know about the market and the macro environment, including the uncertainty of the macro environment is factored in. But if you think about the implied range that we're talking about and really where we started the year, like it should make sense that what we're guiding to, what we're expecting is a really strong finish. But you have to remember, like the baseline that we've said is double-digit, it's not 20% just because we've been fortunate enough and seize the opportunities to do that, so frequently recently doesn't mean that that's the baseline of expectation we're trying to set.

Weston Bloomer

Analyst, UBS Securities LLC

Q

I was...

Patrick G. Ryan

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

A

I would add...go ahead. Go ahead, go ahead.

Weston Bloomer

Analyst, UBS Securities LLC

Q

I was going to switch to another question. So, if you want to follow up there.

Patrick G. Ryan

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

A

Well, I was just going to add that in order to achieve 20%, particularly at the increased scale that we've grown into, is a very significant rate of growth in an insurance brokerage field scale. And so, you have to have everything aligned properly, and it's never really wise or prudent. So, everything's going to align. Now, that's what's been happening out of seven of the nine quarters. And we're not saying it won't, we're just saying it's imprudent to predict that or forecast that.

Weston Bloomer*Analyst, UBS Securities LLC*

Q

Understood. And just as a follow-up, you've talked about the potential for seeing higher competition just due to more admitted writers moving over to E&S. I know you're at the early stage of that, but I'm just curious, when do you think that's going to start to more materially happen? Is it just due to pricing in either the admitted market would potentially go below loss cost or is it another factor that I'm not thinking about? And then how would Ryan adjust once they start to see a more material competition in E&S?

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

A

Weston, the current conditions that we see indicate a 30%-plus growth and volume into the channel, and that comes right from the stamping offices. So we see no real letup on flow into the channel. What we do see in a few lines like public D&O are some premium decreases and some migration back to the standard market, and I think that's what you're looking for and referring to. And we do see some signs in that line, and then in excess casualty in some of the large shared and layered towers some migration back into the standard market.

But all of it is overshadowed by this increased flow of other E&S business into the channel, led by cat property, cyber, healthcare, habitational, construction, transportation, as an example. That flow continues to grow, and we're perfectly aligned in our practice groups to capture that. So we see no letup in our ability to convert that new flow into the channel.

Weston Bloomer*Analyst, UBS Securities LLC*

Q

Great. Thanks for taking my questions.

Operator: Next question, Tracy Benguigui with Barclays. Please go ahead.

Tracy Benguigui*Analyst, Barclays Capital, Inc.*

Q

Thank you. Can you comment on what you're seeing with respect to increases in inflationary type of exposures? I'm not talking about unit economics, more like higher insured values, higher growth sale receipts, et cetera. And I'm just wondering if you think inflationary type of exposure growth is going through some type of true-up right now, so more episodic, or can this piece of premium growth maintain momentum?

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

A

Well, we clearly believe that inflation will drive up exposure growth. And so that's a proportional increase in premium. So that's pretty well established. It depends on how you view the future of inflation in this country, but there's certainly a factor of this driving premiums up. In terms of our ability to adjust the inflationary front, as you know, a significant majority of our operating expenses are variable. And so, we have the benefit of that variability.

I think you also know that we have principally – a high percentage of our business are compulsory products, so they have to buy and if the rates go up, they still have to buy.

And so, there's that inflationary pressure but the demand is consistent. And so, we're just raising those points, but what you have to keep in mind that at some point people say the premium is too high. And so, they'll take a larger deductible, things like that, to adjust the cost of their premium. So, the reality is that the insured, guided by good, solid advice from the broker, both a retail broker in this case, and the wholesale broker, come to the right conclusion for that particular client. But at the end of the day, the client makes the choice.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

So, giving that – those different flows back and forth between higher deductibles and higher inflationary type of exposures, was that a net driver of your organic revenue growth this quarter?

Patrick G. Ryan

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

A

It's early in that, but yes, to a modest degree. But if it continues as it is, it'll be a more significant driver.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Got it. I'm also wondering, do you guys play in the personal line space? Because there is talk about within some cat-exposed states that some of the larger insurers wanting to push that risk more in their non-embedded arms. Is that somewhere that you transact?

Timothy W. Turner

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

A

It is, Tracy. And specifically, it's the high networth part of personal lines that we're active in. We have a practice group vertical. We have proprietary capacity in that space, and that really is a combination of our brokerage capabilities and our delegated underwriting authority expertise, so we're bringing more capital into that space. Very, very significant high demand for solutions there due to global warming and its impact, so it's a great opportunity space for us.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

And how would you say where you rank amongst peers on personal lines?

Timothy W. Turner

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

A

I'm not sure about that.

Patrick G. Ryan

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

A

Well, I would say that there's no published data. But just intuitively, what we see in the marketplace, we have a robust, high networth homeowners practice with some very exceptional talent. And so, we're a significant player in that space.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Thank you.



Operator: Next question, Robert Cox with Goldman Sachs. Please go ahead.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Hi. Thanks for taking my question. I was just looking for an update on your thoughts regarding double-digit organic growth for the foreseeable future. It feels like your revenue base is a little higher than maybe what you would have anticipated. And so I was just looking for an update on what kind of timeframe you're thinking about for that type of guidance, and is it like the next couple of years? Can you go further than that? And how dependent is it on pricing increases?



Patrick G. Ryan

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

I'm going to answer the first part and give Jeremiah the ball. They're higher than what we forecasted. But we were optimistic that we had all of the talent and the resources to enjoy the market that has come. So we were not shocked by how well we've done in that market. The market has just continued to improve, as you know. Jeremiah, you pick up the rest of that, please.



Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

Yep. So when we talk about our growth engine, we talk about being built, specifically use the word built, for double-digit organic growth and we talk about the foreseeable future. Now, the foreseeable future means different things to different people. But it's unwise to try and predict with too much precision out past, like, just, say, a couple of years.



And the reason we're so confident about a couple of years is because of the actual industry fundamentals, the secular tailwinds and secular features of our growth engine that have gotten us here so far. Those can't change on a dime. And recently, we've had a lot of those aspects of our growth engine, like take the E&S market, for example, at a supercharged growth rate. That's not going to last forever. We've tried to communicate that, that 20% is not the baseline.

But double-digit goes all the way down to 10%. And we did that and much better without the benefit of rate. In fact, when rate was going against us for several years, we printed comfortable double-digit organic growth then. We're comfortable that we're still capable of that, that our growth foundation, our growth engine can do that for years to come. But we can't overemphasize enough that double digits doesn't mean 20%.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Okay. Thanks. That's great. And just in regards to the talent that you've hired this year or maybe even in the quarter, how does that compare to your history, maybe as like a percentage of your employee base or something like that? Just trying to get a sense of how many people you've hired this year compared to the historical levels.



Patrick G. Ryan

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

A

Well, compared to historical normal levels because there are periods of early days when we hire large numbers of people off a small base. But directly to your question, this has been a fertile year for attracting talent, filling some retirement holes in terms of people that perform really well for us, but they're ready to retire, and attracting really high-quality people to replace them, and also to build steps and additional A-players in several of our specialties.

Additionally, we've been emphasizing data and analytics, and we've continued to add talent there to really put ourselves in a leadership position as we go forward. So we've been using this period of talking about adding talent, and A-level talent, and we've done that very satisfactorily for us through the first two quarters.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Great. And if I could just ask one more question. I know you had hired a leader for the employee benefits practice. So my question is, have you continued to invest in employee benefits in either talent or infrastructure despite no revenues at this point?

Patrick G. Ryan

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

A

We have invested in talent and particularly in infrastructure. So we brought some really A and A+ level talent in that sector, actuarial leadership, for example, and executive leadership. And they're doing a fantastic job, in our opinion, of analyzing the market, identifying the targets, working with those targets.

And frankly, just as we've had in the P&C M&A space, I think we're emerging as a destination of choice for people in the benefit side who are getting ready to anticipate a change in terms of joining with someone. And I think we're quite good position in that area because of the talent we've brought in, the commitment we've made, the capital that we've shown and we're willing to commit to it.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Thanks for the answers.

Operator: Next question, Jimmy Bhullar with JPMorgan. Please go ahead.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Hi. Most of my questions were answered, but maybe if you could talk about the various drivers of your organic growth, whether it's growth in the E&S market in terms of exposure, pricing, and then any changes in market share? Can you to the extent you're able to quantify or just rank order which ones have been the biggest drivers of your growth over the past year or so?

Patrick G. Ryan

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

A

I think the biggest driver of our growth is winning competitively in the marketplace because everybody is at the right factors and exposure factors. What's differentiated us, and there's been some data published on this, is that we're growing faster than our peers and than our competitors, I should say. And that's because our commitment

to A level talent is also our initial commitment and sustaining commitment to independence, to no conflicts with our clients. You'll see a stark difference between the wholesale growth of our position as an independent and for those who own captive wholesalers.

So, I'm not going to get into any other detail than that, but it's public data. And so, yeah, we're winning. The biggest driver is we're winning more in the market head-to-head. But we've been doing that all 11-plus years, but it's particularly strong right now.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

And maybe another one just on margins. Typically, with growth this strong, you should see a lot of expansion in margins. But I'm assuming you intend to continue to invest in the business as long as you see this type of growth, so should we assume fairly stable margins, at least in the near term or should we assume that margins would expand commensurately with the growth in revenues?

Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

A

Well, I won't go out beyond 2022 for guidance, but we have been consistent about the imperative to continue striking that right balance of investment and healthy margins. I think the healthy margins, as an example, represented by our guidance. But Jimmy, you've studied us long enough to see that exceptional growth does lead to scale and we're committed to banking some of that most of the time.

I've said publicly that we intend – we expect to on a reported basis show margin improvement most years. But there are times, this year is a great example, where it is the right long-term decision for both organic growth and margin to make investments. So, we're going to stick to that plan.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

And just lastly, with all this business flowing from the standard to the E&S market, and then also I think, there's been consolidation of – like annual consolidation on part of the – some of the retail brokers, are you envisioning any changes in like sort of commission or fee structures and commissions you share with the retail brokers, up or down?

Patrick G. Ryan

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

A

No. I think it's very stable. We have a very strong relationship with our clients. They use us because we bring value add. If they don't think we can bring value add, they don't use us. It's not over commission, it's over whether they need us or not in their mind. And so, fortunately, they continue to believe they need us and they do and we deliver. We talk about execution, and outcomes for our clients drives everything we do.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Thank you.

Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

A

Thanks for your questions.

Operator: We have one more question coming from Meyer Shields with KBW. Please go ahead.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. I've one real question and then just one repetition. Tim, you've talked frequently about building a 50 state binding authority operation. Other than acquisitions, can you talk about what's going on internally or organically to get there?

Timothy W. Turner

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

A

Well, historically, Meyer, these binding authority companies were very regionally-oriented and so they tend to give the underwriting authority out locally and not on a 50 state basis. So over the last several years, we've been able to get all of our trading partners to give us 50 state authority which allows us to distribute binding authority and small commercial solutions more aggressively. And to really have a strong opportunity to consolidate the small commercial business on a binding basis.

Our electronic trading platform has been a big investment there, and so this platform that we have has created a 50 state solution-based ability that no one has ever had before. So we're bringing that to the market and we're winning RFPs. And the increase in flow in small commercial continues to grow for us, so great long runway ahead in that space.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Understood. That's helpful. And then, Jeremiah, you gave sort of a definition of interest expense with regard to the third and the fourth quarter. And I'm not sure I caught all the details. I was hoping I'd get you to repeat that, please.

Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

A

Yeah. So that's going to be our interest expense layer which is the interest that – it's three pieces. It's the interest we pay on our term loan, on our bond. It's also the amortization of our interest rate cap which is we're very happy we did – we put on earlier this year. But then, it's offset by interest income on our operating cash. So that's why you see on our financials, it's interest expense net.

And so just based on the current SOFR curve, we thought we would take as much guesswork out of that for those at home playing the model game and just give our best guess of that for the next two quarters, assuming no major M&A.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. But the corresponding number in the second quarter, that's [ph] 24.8 (44:12)?

Jeremiah R. Bickham

Chief Financial Officer & Executive Vice President, Ryan Specialty Holdings, Inc.

A

Yes.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.



Okay. Perfect. Thank you very much.

Operator: I would like to turn the floor over to Pat Ryan for closing remarks.

Patrick G. Ryan

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

Thank you, all, for your excellent questions and your support. We enjoyed the chance to explain our company to you. We're very proud of our company and our results, and thank you for your continued support and have a good evening.

Operator: This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.

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