

12-May-2022

# Ryan Specialty Group Holdings, Inc.

(RYAN)

Q1 2022 Earnings Call

## CORPORATE PARTICIPANTS

### Noah Angeletti

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### Patrick G. Ryan

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

### Timothy W. Turner

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

### Jeremiah R. Bickham

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

## OTHER PARTICIPANTS

### Elyse Greenspan

*Analyst, Wells Fargo Securities LLC*

### Weston Bloomer

*Analyst, UBS Securities LLC*

### Jimmy S. Bhullar

*Analyst, JPMorgan Securities LLC*

### Alex Scott

*Analyst, Goldman Sachs*

### Tracy Benguigui

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to the Ryan Specialty Group First Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Noah Angeletti. You may begin.

### Noah Angeletti

*Treasurer & SVP-Investor Relations, Ryan Specialty Group Holdings, Inc.*

Thank you, operator. Good afternoon and welcome to Ryan Specialty Group Holdings first quarter 2022 earnings call. This afternoon, the company released its financial results for the quarter ended March 31, 2022. The earnings release is available on the Investors section of the company's website at ryansg.com.

I would like to remind everyone that certain statements made during this call are not based on historical information and may constitute forward-looking statements. Any statements that refer to projections, forecast, guidance, outlook or other characterizations of future plans, including integration, expectations, restructuring initiatives, events or circumstances, including any underlying assumptions, are forward-looking statements.

These statements are based on management's current expectations and beliefs and are subject to a number of trends and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. I refer you to the company's filings made with the SEC for a more detailed discussion of the risk factors that could cause actual results, timing, levels of activity, performance or achievements to differ materially from those expressed or implied in any forward-looking statements made today.

Investors should not place undue reliance on any forward-looking statement. The company undertakes no duty to update any forward-looking statements that may be made during the course of this call, except as required by law.

Additionally, certain non-GAAP financial measures will be discussed on this call, including organic revenue growth rate, adjusted net income, adjusted EBITDAC and adjusted diluted EPS. Our presentation of this information is not intended to 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 including in our earnings release, which is available in the Investors section of the company's website at ryansg.com.

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

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## Patrick G. Ryan

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

Good afternoon, everyone. Thank you for joining us on our first quarter 2022 earnings conference call. On today's call, I will provide a brief overview of the quarter and our strategy moving forward. Our President, Tim Turner will then give an update on each of our three specialties and recent events. And lastly, our CFO, Jeremiah Bickham will walk you through our financials. We'll then open it up for Q&A.

Our first quarter of 2022 picked up seamlessly from our outstanding 2021 performance. As we grew total revenue 24% led by organic revenue growth of 20%, we also achieved double-digit growth in adjusted EBITDAC and adjusted net income on a year-over-year basis.

Our excellent results driven were by strong growth across all three of our specialties. Our strong performance this quarter and the prior quarters continues to demonstrate that our differentiated platform provides considerable value to our clients and enables us to outperform in various environments and against any competition.

We are pleased to see that the E&S marketplace remains robust. Market changes we've perceived on the periphery, which we flagged on our prior earnings call, have not yet developed. Broadly speaking, rates remain resilient in the majority of our lines of business. Our rate increases have moderated. They've been more than offset by the continued expansion of the E&S market.

We continue to add to our best-in-class team. We hit the ground running with onboarding new teammates in Q1, particularly in our underwriting management specialty, proving that we are a destination of choice for the top talent in the industry. We believe we offer leading underwriters and brokers a unique value proposition, the ability to build a business by leveraging our industry-leading capabilities, which provides them with strong financial backing and infrastructure support, allowing them to focus on providing innovative solutions for our clients. Further bearing this out is our industry-leading retention for underwriters and producers. It speaks volumes to our winning culture.

Moving forward, we expect to stay the course on our growth initiatives. We are on pace to onboard our largest broker class ever in 2022. We remain confident that these investments in the next generation of teammates will be accretive for Ryan Specialty going forward. We are pushing ahead in our formation of de novos, which you'll hear more from Tim on. Moreover, as we have previously conveyed, we will complete our \$25 million 2020 restructuring program by June 30 of this year.

Looking ahead, we remain very confident in our ability to maintain steady and profitable growth. The E&S market continues to expand as the complexity of risk increases. And as we have for the last 11 years, we continue to take market share from our competitors. Along with our strong organic growth, we continue to maintain a highly active M&A pipeline as we look for additional opportunities to enhance our platform and capabilities.

We have a strong balance sheet, and ample capacity that enables us to act when we find the right opportunities. As we've noted before, we will remain disciplined and move forward only when we identify an opportunity that we believe is strategic, a strong cultural fit and accretive to our shareholder returns.

Simply, this was another outstanding quarter for Ryan Specialty due to our incredible team that is unwavering in their dedication to our clients and trading partners, our time-tested business model and our willing culture. We are well positioned to sustainably and profitably grow our business and to continue delivering long-term value for our shareholders.

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

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### **Timothy W. Turner**

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

Thank you very much, Pat. As Pat highlighted, we picked up in 2022 right where we left off at the end of 2021 with a strong quarter across our specialties. These results are a testament to the teamwork across the firm to our producers, our underwriters and their teams who roll up their sleeves and work day in and day out on behalf of our clients.

In addition, we made significant strides in the quarter expanding our talent base, broadening our product offerings and continuing to strengthen our value proposition to our broker clients and capital providers. Our Wholesale Brokerage specialty continued to experience excellent growth across all property and casualty lines of business. In particular, cat property continues to see record submission flow as admitted markets face pressure from reinsurers derisking their portfolios, which pushes more business into the E&S market.

Construction is another vertical where we see significant increases in flow, with our industry-leading team seeing solid double-digit increases in submissions for both infrastructure projects and habitational construction. Also, our professional liability, healthcare and cyber lines see an increasing flow of business into the E&S channel, which is driving outsized growth. We're also seeing strong growth in our transportation practice as the addition of Crouse and Associates has proved to be essential in winning accounts across our firm.

Within our Binding Authority specialty, we continue to see strong growth in our small commercial lines and are experiencing widespread success in our binding carrier contract renewals. We're keeping a close eye on additional opportunities in the delegated authority market to consolidate into Ryan Specialty and continue on the path toward creating the first truly 50-state binding authority operation.

Our Underwriting Management specialty also delivered a strong first quarter, growing revenue by double digits on a year-over-year basis, while continuing to deliver solid profits to our carrier trading partners. As we've noted before, we appreciate the trust these carriers have shown in us and we are careful to manage our growth with the need to deliver underwriting profit for our trading partners.

As a follow-on to our remarks in the last call, I'm very excited about our strategic arrangement with Nationwide, which provides us with limited exclusive access to its Harleysville of New York, A+ XV AM Best-rated paper to support our underwriting manager, specialty and alternative risk strategy.

Through this arrangement with Nationwide, and as we mentioned last quarter, we're excited to update you on the progress of two of our de novo MGUs. The first is AXSAL, an excess commercial auto insurance alternative risk group captive program created and managed by our recently acquired Keystone team. The AXSAL captive will reinsure Nationwide's fronting capacity, with Nationwide retaining a percentage of the risk directly and through our Geneva Re joint venture. The second is Emerald Underwriting Managers, a primary and excess general liability MGU. We expect that Emerald will very soon be writing on Harleysville paper on an exclusive basis.

The environment remains full of opportunities within this business line. We are very optimistic about the opportunities created by this new strategic alignment and these two de novo programs. These provide additional tools for Ryan Specialty to service our clients and trading partners. Additionally, our M&A pipeline remains robust, as Pat noted, including potential small and large opportunities and across a number of specialties.

In terms of the E&S market, the environment remains very positive. While competition is still entering the market on the fringes, we have yet to see competition accelerate in any meaningful way. Pricing remains firm in nearly all lines of business and flow was very steady through the first quarter of the year and through April, particularly with additional stress that we have seen in the admitted market. As we said before, we expect the increasing flow business into the non-admitted market to continue to be a significant driver of Ryan Specialty's growth, more so than rate.

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

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## Jeremiah R. Bickham

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

Thank you, Tim. In Q1, we grew total revenue 24% period-over-period to \$387 million, which was fueled by strong organic revenue growth of 20.1%, benefiting from the continued tailwinds in the E&S market and the market share gains that Pat and Tim noted earlier. We were once again very pleased with our performance and especially with a very strong finish to the quarter.

Net income for the first quarter of 2022 was \$18 million or \$0.06 per diluted share. Adjusted net income for the quarter, which excludes IPO-related and other unusual items, increased 13% period-over-period to \$65 million or \$0.24 per diluted share. Adjusted EBITDAC for the first quarter grew 14% period-over-period to \$107 million, while adjusted EBITDAC margin declined 260 basis points to 27.7%. Primary drivers of our adjusted EBITDAC increase were our revenue growth, the continued realization of savings from our 2020 restructuring plan and lighter professional services spend, which we expect will pick back up in Q2.

However, our margin was impacted by continued investments in the business, public company costs, as we were private in Q1 of 2021, and T&E returning to normalized levels, which we flagged in our remarks last quarter. As a reminder, the latter two items will impact the second quarter margin as well. And it's important to note that relative to Q1 of 2020, our margin is up 560 basis points.

As we previously noted, the current environment offers us a unique and very exciting opportunity to hire A+ level underwriters and brokers. And we expect to capitalize on this opportunity in future quarters by pursuing and

onboarding top talent to our platform. Over the long term, we expect that our growth will yield additional and sustainable operating leverage in the form of adjusted EBITDAC margin.

Furthermore, our balance sheet remains quite healthy. During the quarter, we completed an opportunistic \$400 million high-yield offering at a rate of 4.375%. In April, we converted our credit facilities to a term SOFR benchmark and purchased an interest rate cap on \$1 billion of SOFR with a strike of 2.75%, capping our rates on that \$1 billion through 2025. We would expect to straight line the cost of the cap over the life of the instrument.

And further on interest rate exposure, we have a natural hedge with our operating and fiduciary cash balances. And similar to our peers, it earns a modest yield tied to the risk-free rate. In short, we believe that we are very well insulated from steep increases in the Fed funds rate.

Given our strong execution and a 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 13.5% and 15.5%. We continue to believe that our guidance is prudent given the prolonged stages of a very hard market and increased flow into the E&S market.

We are also taking up the low end of our adjusted EBITDAC margin range for the full year 2022 and are now guiding to end the year between 28.5% and 30.0%. As we previously noted, we are investing heavily in talent and growth in 2022 in order to continue serving our clients over the long-term, and many of those investments will be made in the second quarter and subsequent quarters.

In summary, we are very pleased with our performance during the first quarter of 2022 and 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:** And at this time, we will be conducting a question-and-answer session. [Operator Instructions] And our first question comes from the line of Elyse Greenspan with Wells Fargo. Please proceed with your question.

**Elyse Greenspan**

*Analyst, Wells Fargo Securities LLC*

Q

Thanks. Good evening. My first question, so you guys took up your organic guidance. I'm just trying to get a sense, it sounds like you're not really seeing kind of the competition that you said you might have seen on the fringes, right, from last quarter. When you put together this new guide, are you assuming that you start to see that to a greater degree over the balance of the year? Or how should we think about just that impact on organic as we move through 2022?

**Patrick G. Ryan**

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

A

Well, I'll start with that. It's Pat. And Jeremiah, I'll pick it up. It's just very hard to predict. We're not seeing much of it now. That's really the story on that. We just think it's prudent to keep those historical facts in mind. Jeremiah, why don't you pick it up?

**Jeremiah R. Bickham**

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

A

Yeah. So that's the most important piece out of prudence and in an effort to be transparent and helpful. We flagged competition we were seeing and noted that in our forecast, there's the presumption that the markets cool off later in the year. The other thing – and that's still a factor in our forecast, just to be clear. Even though, as Pat said, we haven't seen that accelerate. We still think that that's prudent to keep into the forecast.

We also mentioned in the last quarter and I'll just reiterate to give some other – some additional context on why the guide moved the way it did. You probably realize that our quarterly estimates are not linear. So the organic that we [ph] produced in (00:18:54) Q1 and how it relates to the full year guidance was not a total surprise to us.

And in addition to what we've observed in the past from the way extended hard markets eventually change, we also want to acknowledge the macro uncertainty out there that Pat noted last call as well, rising interest rates, inflation, general economic uncertainty and war. And remember that we're only four months into the year, and we'd love nothing more than to come give you a positive update in a couple of months. Q2 is actually our biggest quarter of the year.

So hopefully, that's the case, but in the meantime, we feel the need to be prudent.

**Elyse Greenspan**

*Analyst, Wells Fargo Securities LLC*

Q

And then my second question, you guys mentioned that you're going to be investing, right, by – investing in talent and kind of bringing on more underwriters and brokers in the – I think, starting in the second quarter. My sense is when companies have flagged hiring, right, that there's typically a lag, right? So there might be an impact on expenses, right, to start and then it takes time for these individuals to ramp up and really help from a revenue



perspective. So can you help us think about the timing here? Is this something that you think could be a tailwind to organic growth in 2023 as you kind of ramp up on the hiring front this year?

**Patrick G. Ryan**

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

A

I would say that it's a mixture of that. We have onboarded some very exceptional talent already and then – and so we expect that they'll start to produce in the second, third and fourth quarter. Additionally, we've hired people that have garden leaves and so that could be anywhere from 90 days to 6 months. But they're committed. They're highly talented and they're real professionals. And in fact, those expenses will come on in the third and fourth quarter of those that are deferred to the garden leave.

And so it's hard to say how productive they'll be in the third and fourth quarter, but these are seasoned professionals who have a great reputation in this niche practice groups that they're involved in. And so we're very optimistic about their ability to contribute in relative near term.

**Elyse Greenspan**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. Thanks for the color.

**Jeremiah R. Bickham**

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

A

Thank you, Elyse.

**Operator:** Our next question comes from the line of Weston Bloomer with UBS. Please proceed with your question.

**Weston Bloomer**

*Analyst, UBS Securities LLC*

Q

Hi. Thanks for taking my questions. My first one, to follow up on the organic growth guide. To what extent does your guidance forecast a recessionary environment in the back half of the year? And do you think you can kind of maintain that overall organic growth in a potential recession? Just kind of curious how – I know you weren't necessarily public during the 2020 timeframe, but how did your book hold up over then? How are you positioned now? Thank you.

**Jeremiah R. Bickham**

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

A

Weston, this is Jeremiah. Let me start on that and I think some context around how we build our budgets and our forecasts. It's actually not a top-down process. We go out to every producer, every underwriter in the field. And they have to do a bottoms-up, by account build that we aggregate and interrogate, and that's how we get to our projections. A consistent theme as we were building the budget this year was this assumption and different timing for different lines is that there would be a market slowdown. And these people are highly seasoned professionals. They know their books. They know the market. But they're not making assumptions and we're not layering in broader assumptions about the macroeconomic environment.

Earlier this year, I mean the – things have already changed a lot just since January or February. So we're not making predictions about a recession or the timing or anything like that. And it's really hard to say how would your



forecast do against a recession or something like that and every recession is different, as you know, Weston. But what I can do, since you asked specifically, is there was a significant economic downturn in 2022. We put up record organic growth during that period.

**Patrick G. Ryan**

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

2021.

A

**Jeremiah R. Bickham**

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

And – I'm sorry, in 2021. In 2020 and 2021, we were dealing with the effects of the pandemic, and you wouldn't know there was a pandemic or a downturn going on just based on our financials.

A

If you look back to the prior two recessions, we certainly weren't public at those times, but the other brokers were resilient. So I don't have a great answer for you on how our specific forecast would change if we entered a recession. But as Tim mentioned and Pat mentioned in his remarks, the overall insurance market conditions that affect us the most are still healthy. So that's a positive sign. And then there's some other mitigating factors for us that are helpful if we get into a period of economic uncertainty. For example, our – most of our – the majority of our expenses are comp and the majority of our comp is performance-based and therefore variable. So we're not concerned, but we don't have a lot of precision around how our forecast changes in a recession.

**Patrick G. Ryan**

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

There's another point that I would add to that, which is a high percentage of our brokerage and managing underwriting business provides compulsory insurance products. We're not heavily into discretionary. And the compulsory, really, they have to buy insurance because it's the law on comp or auto or they're borrowing money and the banks require, the lenders require. So it's a matter of what's happening to exposures, what's happening to payroll such as you run into a tougher insurance market, but also a slowdown in the economy. And [ph] there's not an (00:25:57) ability to predict that balance. But clearly, the world is getting riskier and there's inflation, so that's raising exposures, and that does raise premiums, but there's just no way to calibrate that. It would be inappropriate for us to try to give you a number on that. Nobody can do that.

A

**Weston Bloomer**

*Analyst, UBS Securities LLC*

Got it. That's all very helpful. And my second question is more on the margin outlook, specifically around the compensation. And I know you said you saw a pretty steep pickup in hiring. I think total compensation was up close to 26% in 1Q versus 12% last quarter. Just how much of that increase was from hiring versus general wage inflation trends? And can you help me think about those two metrics as I move through the year? Like is 1Q the high watermark for the accelerated increase in hiring? Or should it accelerate further from here? And what are your expectations for wage inflation throughout the year? Thank you.

Q

**Patrick G. Ryan**

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

Why don't you answer the wage inflation and I'll talk about timing.

A

**Jeremiah R. Bickham**

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

A

Yeah. So Pat will talk more about the timing, I'll just give you a teaser. The hiring environment, the hiring opportunity, we still consider very rich. Depending on how you want to look at it, whether you're talking about the broker class or others, we're on pace to ahead of schedule there, but the timing of that is a little bit difficult to predict.

Wage inflation, we've seen it. We've seen the impacts as we look at offer letters, for example, for salaried employees that go out relative to what we had planned. There are some surprises, some increases in there. But again, the majority of our compensation is related to producers and they're paid on a formula that's tied to revenue. So when their comp is going up, it's because revenue is going up proportionately. And the rest of the salaried or the non-variable comp piece hasn't had a material negative impact on us yet.

**Patrick G. Ryan**

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

A

And we remain a destination of choice for talent and brokerage, binding and managing under a delegated authority. So that we're casting a wide net for exceptional talent. We're not looking to just bring people in that are doing fine. Looking for people who historically have done really, really well, but they can prosper in our culture and on our platform and our environment. And you can see the benefit of that as all risk brokers and manager – and underwriting, binding underwriting, underwriting brokers have really increased their productivity. We can already see that in Crouse. So the idea is to keep bringing in seasoned professionals, while, as Tim had referenced, bringing in young people right out of college and university or out of the military, who have a lot of talent and no experience and putting them through our training program and our development program. All of those are accelerating.

**Weston Bloomer**

*Analyst, UBS Securities LLC*

Q

Got it. That's all super helpful. Thank you.

**Operator:** Our next question comes from the line of Jimmy Bhullar with JPMorgan. Please proceed with your question.

**Jimmy S. Bhullar**

*Analyst, JPMorgan Securities LLC*

Q

Hi. I had a couple of questions. First, just on organic growth, if you look at your results in 1Q, you mentioned in the release several drivers of that, including, I think, new clients, expanded relationships with existing clients, pricing. Can you give some dimension on what the contribution of each was or which one was a bigger driver than the other, to the extent you're able to quantify the various drivers of the organic growth in 1Q?

**Jeremiah R. Bickham**

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

A

We don't break that out, Jimmy. What I will reiterate though is that the – if you're thinking about rate versus exposure, rate versus flow, the latter is much more significant in terms of driving growth opportunities for us. And the flow – and Tim can expand on this, but what we're seeing – what we saw in Q1 and what we've seen reflected in the organic growth numbers was a healthy amount of new business, a healthy amount of flow into the E&S market that we were able to take more than our fair share of. And as our existing clients' needs and the risks that

[ph] were already in (00:31:00) E&S grew, we believe that we took more than our fair share of that as well. So it's a very balanced attribution. But, Tim, is there any more color you want to add?

**Timothy W. Turner**

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

A

No, I would just add that the increase in non-admitted property and casualty business into the – into our channel increased through the stamping offices and our association that records it, WSIA. So we know the flow continues to grow. And as Jeremiah said, we're capturing more of that.

**Jimmy S. Bhullar**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then can you talk about fiduciary income and what do you expect for that? Like, how sensitive is it to the move in rates and to the extent you're able to quantify what your expectations are?

**Jeremiah R. Bickham**

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

A

Say that again, Jimmy?

**Patrick G. Ryan**

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

A

Fiduciary.

**Jimmy S. Bhullar**

*Analyst, JPMorgan Securities LLC*

Q

On fiduciary income, what do you – how should that benefit or be affected by the rise in rates? And how much of leverage – how much leverage does it have to the increase in rates?

**Jeremiah R. Bickham**

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

A

So I'm glad you brought that up because I know inflation and rising rates are on everyone's mind and we've got fixed-rate debt. We've got interest rate caps. But our biggest hedge is a natural hedge and it's the hundreds of millions of dollars that we have in our balance sheet, that premium in transit that we can invest.

Now remember, though, that that money doesn't belong to us, so preservation of capital is priority one, two and three. And all the states have different rules about what you can do with it and some of them are as limiting as you got to keep it in a savings account at a bank. And so it doesn't track – our yield opportunity doesn't track perfectly with the Fed funds rate or SOFR. But conservatively – and it's going to depend on a number of different things, Jimmy, but something conservative to model for this year as everything is moving around. And obviously, the yield opportunity, there's a lag to when interest rates rise. I would say one month term SOFR minus 50 basis points, we could comfortably achieve this year.

And in a – over the medium term in a more stable environment, we may be able to get tighter. But that's a safe assumption on our FID balances this year.

**Jimmy S. Bhullar**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then just lastly, if I could ask on your comments around talent and hiring. I think you mentioned it's a good environment for hiring. I would have thought it would be a bad environment for hiring, given just wage inflation, competition for talent, low unemployment. But can you just expand on that a little bit? Are you talking about people from other brokers? Are you talking about people from outside the industry?

**Patrick G. Ryan**

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

A

Both, other brokers and other managing underwriters. We're not having a real problem with that because we are a very performance-based comp plan. And so we can pay nice rewards for good exceptional performance. So as people look to join us, we're not looking at what is their salary as much as they're looking at what is the growth opportunity in my short-term incentive plan and this platform that I'm joining. And then, frankly, we do have our equity program that's well disciplined, but that's attractive to people as well. So as we said in the past, one of the benefits of our going public, in spite of what's happened in the market in the last period of time for everybody, almost everybody, the liquid stock that the New York Stock Exchange listed, security is very attractive to people. And so the combination of all of that is giving us an opportunity to be quite competitive in terms of hiring without reaching in terms of fixed costs.

**Jimmy S. Bhullar**

*Analyst, JPMorgan Securities LLC*

Q

Thank you.

**Operator:** And our next question comes from the line of Alex Scott with Goldman Sachs. Please proceed with your question.

**Alex Scott**

*Analyst, Goldman Sachs*

Q

Hi. Yeah. Thanks for taking it. First one I had is just on the M&A pipeline. Any comments you have on what that looks like and how the current environment and potential changes in cost of capital and so forth would impact your M&A plans?

**Patrick G. Ryan**

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

A

That's a question that we really welcome because we've been working the pipeline. And as we said, the pipeline is robust. I think you know by now that we're quite deliberate. So we have – we always start with the cultural fit and then the strategic fit. And we don't do opportunistic deals, we do strategic. So we have discussions going with people that have proven their cultural fit, meet our strategic demands. And now we're in discussions to see that we can work out terms including price, et cetera, to be accretive to our shareholders.

Now sometimes it takes a little longer for them to be able to approve the accretion. So you can have discussions that could be prolonged for a few months, like here's what we expect we can do on our own. And here's what we think we can do to help them once they're with us. And it's not always a natural meeting of the minds. But because we are a destination of choice, we have had the ability to continue those discussions until we're satisfied that, yes, this is a deliverable, we can make it accretive and we move forward.

**Alex Scott**

*Analyst, Goldman Sachs*

Q

Got it. That's helpful. Thank you. Second one I had is around inflationary impacts on the top line. I guess some of the primaries talked about how exposure can also be impacted by the changing value of the underlying products, property, et cetera, that's being insured. I'd be interested what's sort of embedded in your plans around that? I would think since maybe you laid out full year, inflation's ticked up. And is that something that would help a bit just on the exposure unit side in terms of revenue growth?

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**Jeremiah R. Bickham**

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

A

It definitely could and we're hearing the same thing from carriers that as loss costs go up, they need to keep up. Periods of high inflation, what typically follows is a hard market as well. So there's a couple of different factors that could provide potential tailwinds to us. But we're not – we haven't gotten 2Q on the back half of the year in terms of the current inflationary environment. And that's providing a big boost. There's certainly the potential for it, though.

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**Patrick G. Ryan**

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

A

Well, the other part of that answer is that this is where brokers really earn their distinction. Because with inflation, and of course, with interest rates moving up, coverages that were written a year ago, 18 months ago, 2 years ago are going to be paying out higher claims because of inflation, including social inflation. I think a lot of people are saying that inflation is not transitory now. It's a matter of how far and how fast it goes.

So the good brokers, and that's generally defines our team, and our underwriters are very careful because they have a responsibility to make sure that they're guiding the clients to protecting this exposure increase. And less experienced and less qualified brokers can take the easy way out and assume lower exposure increases. But I think our people are really professionally oriented to deal with that. So that does drive exposure increase. Very hard to quantify, but it's real.

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**Alex Scott**

*Analyst, Goldman Sachs*

Q

Thank you.

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**Operator:** Our next question comes from the line of Tracy Benguigui from Barclays. Please proceed with your question.

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**Tracy Benguigui**

*Analyst, Barclays Capital, Inc.*

Q

Thank you. On the seasonality perspective, you previously mentioned that the first and third quarters, you see lower organic revenue growth, and in the second and fourth quarter, the opposite. I'm wondering if there are any pull forward in the first quarter that could affect second quarter organic revenue prospects or do you expect the same quarterly cadence of organic growth.

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**Jeremiah R. Bickham**

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

A

So Tracy, I'm glad you asked that because Q1 and Q3 don't necessarily have to be the lowest organic growth. They're just the smallest. And Q2 and Q4 are the biggest. And sometimes that aligns with organic growth, but sometimes not. So look at last year, Q3 was, I believe, our highest organic growth percentage that quarter. So we

expect the seasonality in terms of quarter size to follow its usual pattern. So Q1 and Q3, the smallest; Q2 and Q4 the biggest, but we're not seeing – we're not attributing what we achieved in Q1 to be any material – be related to any material timing issues, like Q1 versus Q2 or Q1 and Q4.

**Tracy Benguigui***Analyst, Barclays Capital, Inc.*

Q

Got it. That's helpful. And then just a follow-up on your comment that you're actually seeing very steady flows in the E&S market through April. I'm just wondering what about the next wave. When risks are really hard to place, it goes from admitted to non-admitted to eventually Bermuda. And you mentioned your Geneva Re joint venture earlier. Can you remind us your Bermudian capabilities, and over time, if you could see meaningful growth in that market?

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

A

Well, Geneva Re has partnered with Nationwide on specialty, and then Ryan-related investors are very conscious of the underwriting discretion required to in effect do this appropriately. And so there's a conservative attitude on that. We have really high-quality underwriters.

And I would add that we're dealing with really high-quality retail brokers. And so we're partnering together with those retail brokers to make sure that as the business that they're bringing comes to the E&S market, it's properly placed and it's placed with high-quality carriers. And so the partnership with Nationwide with A+ XV does attract quality business. So that's all working out quite well.

**Tracy Benguigui***Analyst, Barclays Capital, Inc.*

Q

Can you also just remind me, you account for that stake of Geneva Re under the equity method? So could we see that category growing over time as maybe another source of income?

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

A

No. It's a capital growth strategy.

**Jeremiah R. Bickham***Chief Financial Officer & Executive Vice President, Ryan Specialty Group Holdings, Inc.*

A

The benefits of it, Tracy, though, there's our capital investment, which you're correct to remember, it's on the balance sheet as an equity method investment. But related to Geneva Re is our reinsurance MGU, Ryan Re, which we wholly own as of, I believe, it was the end of Q1 2021. And you will see the impact of that relationship and the growth in that MGU flow through our P&L like the rest of our MGUs.

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

A

That's a really good point. I probably misunderstood the [ph] crux (00:44:59) of that question. But we were able to attract unusually capable reinsurance underwriting talent. And then partnering with Nationwide and their A+ XV balance sheet, they're carving out a very nice market position with high-quality ceding companies. And as a result of that, we've expanded our total addressable market significantly because we're now working with insurance carriers on providing them services that really are in our mission statement.



So that is an added dimension to the joint venture relationship that we described. When you have exceptional talent as we have and you have A+ XV quality balance sheet, you attract very high-quality business. And that's what's happening.

**Tracy Benguigui**

*Analyst, Barclays Capital, Inc.*

Q

Got it. Thank you.

**Operator:** [Operator Instructions] Our next question comes from the line of Meyer Shields with KBW. Please proceed with your question.

**Meyer Shields**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thanks and good afternoon, all. One of the issue that you talked about on, I guess, early on was that when retail brokers consolidate, then the fact that those retail brokers have consolidated, their wholesale panel also inures to your benefit. And I was hoping you could talk about what exposure maybe the growth trajectory has if higher interest rates slowdown the retail brokers acquisitions.

**Jeremiah R. Bickham**

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

A

That's a very good question. That effect is certainly not measurable yet, but if interest rates, we are hearing whispers from out in the M&A landscape that certain PE investors, for example, are thinking of a pause or a delay, maybe a wait and see on their M&A approach related to interest rates. So to the extent that strategics, the big retail brokers that are our trading partners that consolidate essentially customers for us, to the extent that that changes their M&A outlook, it could have an impact, but I would expect them, the strategics, to have a more durable thesis on roll-ups and consolidation than the strategic just because they're strategic. But the most important thing is, Meyer, we haven't seen that impact yet.

**Meyer Shields**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay. That's helpful. Do you have an idea of the timing of it? In other words, if – I'm assuming catastrophic scenarios, but if M&A goes away in the retail market, does it show up immediately in terms of slower growth or is there any sort of lag?

**Jeremiah R. Bickham**

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

A

That's probably a question for Tim.

**Timothy W. Turner**

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

A

Sure. I'd be happy to. Hi, Meyer.

**Meyer Shields**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Hey.



**Timothy W. Turner**

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

A

No, we can't see any slowdown in growth related to M&A. I mean, most of these clients that are involved in it are our clients, the acquiring agency and the ones being rolled up in the private equity roll-ups and even the publicly traded broker clients. We just don't see that really affecting the business that's coming our way right now.

**Patrick G. Ryan**

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

A

The other part of the M&A is that, as you know, we've established a third vertical in benefits, which is going to be mostly managing underwriting with some consulting attached to it, and then the fourth vertical being alternative risk. And so there are opportunities in each one of those sectors that are quite interesting with some fairly abundant opportunities. It's really up to us to select the right ones for us. But both of those strategies and those verticals are in sectors that M&A activity is picking up in.

**Meyer Shields**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay. Fantastic. That's all I had. Thank you.

**Operator:** And we have reached the end of the question-and-answer session. And I'll now turn the call back over to Pat Ryan for closing remarks.

**Patrick G. Ryan**

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

Thank you, operator, and thank you, ladies and gentlemen, for your continued interest and support of Ryan Specialty. We always enjoy these discussions and the good give and take and the dialogue. We look forward to speaking with you again when we discuss our second quarter 2022 results. Thanks for your interest in our company and have a good evening.

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

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