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Ryan Specialty Holdings, Inc. (RYAN)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

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Timothy W. Turner

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Elyse Greenspan

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Ryan Tunis

Analyst, Autonomous Research US LP

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Analyst, Citigroup Global Markets, Inc.

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Robert Cox

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for joining us today for Ryan Specialty Holdings' First Quarter 2023 Earnings Conference Call. In addition to this call, the company filed a press release with the SEC earlier this afternoon, which has also been posted to its website at ryanspecialty.com.

On today's call, management's prepared remarks and answers to your questions may contain forward-looking statements. Investors should not place undue reliance on any forward-looking statement. These statements are based on management's current expectations and beliefs and are subject to risks and uncertainties that could cause actual results to differ materially from those discussed today. Listeners are encouraged to review the more detailed discussion of these risk factors contained in the company's filings with the SEC. The company assumes no duty to update such forward-looking statements in the future except as required by law.

Additionally, certain non-GAAP financial measures will be discussed on this call 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 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 first quarter results. With me on today's call is our President, Tim Turner; our CFO, Jeremiah Bickham; our CEO of Underwriting Managers, Miles Wuller; along with Noah Angeletti and Nick Mezick from Investor Relations. First quarter represents a great start to the year. We grew total revenue 18.3%, led by organic growth of 12.9%, building on 20.1% organic growth in the first quarter of 2022. We also achieved double-digit growth of adjusted EBITDAC and adjusted net income on a year-over-year basis.

In the first quarter, we saw broad-based strength in many lines of business, including continued growth in property. The specific headwinds we noted on our prior calls were in line with our expectations and offset some of our property tailwinds. We anticipate that these headwinds will persist into at least the second quarter. Overall, I'm very pleased with our performance, especially when viewed in the context of the volatile macroeconomic environment. Despite headlines in the banking sector, persistent inflation, and heightened macroeconomic uncertainty, we believe our firm will continue to perform well through this economic cycle. Our products are largely compulsory and as risks become ever more complex, we are uniquely positioned to provide our clients with the experience, expertise, and innovation they require to seamlessly manage their insurance needs.

Growth in the E&S marketplace continues to outpace the overall P&C insurance market and is providing solutions that would not otherwise be attainable for hard-to-place risks. Given today's macroeconomic and broader insurance challenges, the E&S market is resilient, nimble, and offers Ryan Specialty a tremendous opportunity for growth. Specific to Ryan Specialty, our specialized and industry-leading broker teams navigated the complexities of the market, including each of the micro cycles within the hundreds of lines that comprise commercial insurance, providing solutions that are uniquely tailored for our clients' needs.

Our delegated authority specialties binding and underwriting management continue to generate underwriting profit on behalf of our trading partners and delivered strong top line growth. Through widespread marketing exercises and strong relationships with our carrier trading partners, our experts find coverage for hard-to-place risks by crafting and weaving together large towers of capacity for our clients. This is particularly valued by our clients and insurers in the challenging insurance market.

We have also expanded our ability to serve brokers, agents, and carriers through renovation and the creation of alternatives to traditional insurance placements. This is especially meaningful in areas like cat property and transportation. We continue to serve our clients and trading partners with distinction, thanks to the exceptional team we've assembled since our founding, and we take great pride in developing the next generation of teammates and leaders.

We continue to make targeted investments during the quarter, adding underwriters and brokers to further deepen our current capabilities and develop areas we anticipate our clients will need in the future. To that end, we've seamlessly picked up from where we left off in 2022, when we onboarded the largest production class in our history. These investments, particularly in the recruitment of new colleagues, offer the greatest returns for our shareholders and are part of a proven winning formula to maintain our long-term growth prospects.

On the M&A front, our pipeline remains robust, including opportunities that would bring foundational capabilities and wholesale employee benefits. As a reminder, we closed a highly strategic acquisition, Griffin Underwriting Services, at the beginning of the year and is contributing to both our binding authority and broker specialties. We remain disciplined in our pursuit of acquisitions, particularly in the current environment, as we will only move forward when all of our criteria are met. Every acquisition must be a strong cultural fit, strategic, and accretive. As

is evident by our consistently strong performance, we do not require acquisitions to achieve our growth targets in any given period.

Looking ahead, I remain confident that 2023 will be another strong year for our firm. We are well-positioned to capture the broader E&S tailwinds while capitalizing [indiscernible] (00:06:41) specific areas accelerated growth. Our flexible business model continues to enable us to quickly adapt and pivot to ever-changing market conditions. I'm proud of our entire team for staying focused and delivering outstanding results for our clients, trading partners, and shareholders. A differentiated business model continues to stand apart from the competition. It sets us up to continue delivering significant value for years to come.

Now, I'm pleased to turn it over to Tim. Tim?

Timothy W. Turner

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

Thank you very much, Pat. We had a strong start to 2023 across our specialties, and our entire team remains determined to maintain that momentum throughout the year. Ongoing industry trends such as social inflation, climate change, and older mass tort claims, combined with economic inflation, are driving more risks into the E&S marketplace, which offers significantly more freedom of rate and form. We remain well-positioned to continue successfully executing our playbook.

Diving into our specialties. Our wholesale brokerage specialty achieved another quarter of strong growth, balanced across most lines of business. In property, we are seeing multiple forces at play, including recent years elevated loss activity for both attritional and secondary perils, inflation driving higher costs of materials and labor, higher reinsurance pricing, and diminished capital levels. This has led to a historically hard market which continued into April with significant rate increases.

We expect the hard property market to continue as the effects of reinsurers de-risking their portfolios at January 1 and April 1 reinsurance renewals are felt and as insurers approach a continued challenging renewal at [ph] 6/1 and 7/1 (00:08:50). These factors are driving the flow of new business into the non-admitted market, and our industry-leading team of experts allow us to fill that need with innovative insurance solutions.

We believe property will continue to be a strong driver of growth in 2023. Our transportation practice had another strong quarter and continues to see substantial flow, fueled by social inflation and carrier need for continued rate increases. We continue to win our fair share of business and remain well-positioned to capitalize on additional growth opportunities. In our casualty practice, we are seeing higher loss trends, inflation, and reserving issues that are driving more flow into the E&S channel, particularly in lines like healthcare, sports and entertainment, higher education, habitational, and real estate.

Regarding the recent events in the banking sector, to-date, we have seen only a modest impact on D&O focused on the banking sector. While losses may end up being material to the market, at this time, we do not see a systemic risk for D&O insurers or any signs the market is materially hardening. However, there remains some uncertainty about further banking failures, and we are closely monitoring the market as the risks evolve. But especially in times of uncertainty, our producers add value and deliver the best solutions to our clients.

We believe wholesale brokerage is well-positioned to grow consistently in the coming months and years. In our binding authority specialty, we saw another quarter of solid growth in traditional binding, which includes smaller commercial businesses, somewhat limited by capacity constraints and personal lines. We continue to see further potential for panel consolidation as a long and steady growth opportunity and we are well-positioned to execute.

Our underwriting management specialty continued to post strong results, led by steady and profitable growth in property and casualty and our reinsurance MGU, Ryan Re. As Pat noted, the specific headwinds in certain lines in the first quarter were in line with our expectations. Specifically, we saw a rapid rate decline in public company D&O, lower external M&A and IPO volumes in transactional liability, and delayed project-based starts and construction. Pricing in the E&S market largely held firm or is accelerating at many lines of business, with property continuing to see the most rate momentum. Exceptions are public company D&O, where we saw further rate pressure and cyber, which is now seeing modest rate declines.

As with all cycle, as pricing continues to increase and certain lines are perceived to reach pricing adequacy, we see admitted markets step back in on certain placements, particularly within large towers. But overall, the standard market carrier competition has yet to meaningfully impact rate or flow in the aggregate. As we frequently noted, we expect the flow of business into the non-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 first quarter. Thank you.

Jeremiah R. Bickham

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

Thank you, Tim. In Q1, we grew total revenue 18.3% period-over-period to \$458 million, fueled by another strong quarter of organic revenue growth at 12.9% as we continued to see the benefit of ongoing tailwinds in much of the E&S market, broad-based strength in many of our lines, including property and our ability to win substantial amounts of new business. Net income for Q1 2023 was \$36 million or \$0.11 per diluted share. Adjusted net income for the quarter was \$72 million or \$0.26 per diluted share.

Adjusted EBITDAC for the first quarter grew 16.5% period over period to \$125 million, while adjusted EBITDAC margin declined 40 basis points to 27.3%. Our EBITDAC margin was impacted by continued investments in our business and T&E continuing to return to normalized levels, both of which were partially offset by higher fiduciary investment income. Regarding our adjusted EBITDAC margin, on a seasonal basis, the second and fourth quarters are historically our largest quarters in terms of revenue, and therefore, the strongest in terms of margin, while the first and third quarters are typically smaller and lower from a margin perspective.

Turning to our ACCELERATE 2025 program. We had a small charge in the quarter and we expect charges to ramp up in the second half of 2023 and throughout 2024. As a result, very little P&L savings will materialize this year. Savings will gradually increase as 2024 progresses, and we remain on track to generate annual savings of \$35 million in 2025. We made significant progress in the first quarter in onboarding additional underwriting and broking talent, and we expect that our recruitment efforts will continue as we progress throughout the year. Cost of these investments, along with the annualization of our 2022 head count growth, will be partially offset by increases in fiduciary investment income during 2023. As Pat said, these investments in talent, particularly in the recruitment of new colleagues, offer the highest returns for our shareholders and are part of a proven winning formula to maintain our long-term growth prospects.

We are now guiding organic revenue growth rate for the full year 2023 to be between 10.5% and 13.0%, which reflects an increase of 50 basis points to the floor compared to our previous guide range of 10.0% to 13.0%. We are maintaining our adjusted EBITDAC margin guidance of between 29.0% and 30.0%. As we noted on our prior calls, we expect the headwinds affecting organic revenue growth will persist through at least the second quarter of

this year. In summary, we were pleased with our first quarter performance and we remain very excited about our near-term and long-term prospects.

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] Our first questions come from the line of the Elyse Greenspan with Wells Fargo. Please proceed with your questions.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Hi, thanks. Good evening. My first question is just given the fact that, once we get to the second quarter, there is a greater concentration of property business. And I know you guys still said that you will have some of these headwinds persisting, but wouldn't that more than offset that, i.e., like the first quarter could conceptually be the lowest organic quarter of the year, if you get [ph] more (00:16:51) property in the business mix and the headwinds start to go away?

Jeremiah R. Bickham

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

A

Hi, Elyse. Thank you. Yes, from an information perspective, especially on the property side, Q2 will be a lot more telling. There's more property business in Q2 and it's also just a bigger quarter from a seasonality perspective.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

And then – but am I wrong? Does it feel like the impact of the headwinds is – like keeps getting lower, right, meaning, you probably felt it a little bit less in the Q1 than the Q4? And then the same could apply to the Q2 and the other quarters of the year?

Jeremiah R. Bickham

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

A

There's a number of headwinds that are still in play, Elyse, and I suspect we may get into them in a little bit more detail later in the call. But the headwinds related to public company D&O given that we'll have hopefully lapped the hardest part of our book by Q2, we do expect some relief there. We're not calling for a relief in the overall market, but as it relates to our book, it should get easier. The macroeconomic related headwinds, who's to say. But as you can see from the pretty strong results here in Q1, our teams are really resilient and innovative and have found ways to win and create new opportunities. So we feel good about the Q1 results. We feel good about the rest of the year. But Q1 is our smallest quarter from a seasonality perspective. So there's not too much information that you can glean from it.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Okay. That's helpful. And then one last one, you guys seem to speak positively about the M&A environment. [indiscernible] (00:18:45) hoping to get a little bit more color just on what you're seeing out there and things that Ryan is looking at these days?

Patrick G. Ryan

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

A

Sure. Thanks, Elyse. As I said in my comments and Jeremiah just repeated. The M&A pipeline is very strong. We're actually calling it a robust pipeline, as we said. But I'd like to remind everyone that we're not a rollup, we're not an [ph] investor companies (00:19:19). We buy, we integrate, and we make companies, good companies better, and really, really good companies great. And so I think it's really important to keep that in mind.

When we do acquisitions, we're looking to expand the scope. Scope could be geographies, scope could be digital lines of business. Everything we do is strategic. We're not doing opportunistic. We're not doing acquisitions just for scale. But when we expand for scope, we got scale. So for example, we closed Griffin and Pacific Northwest earlier in the year and we're very pleased on how they already are assimilated and advancing our binding authority strategy and our brokerage strategy. So those acquisitions, we look at and we bring them in and already we're getting improvement and performance. And as we've said in the past, today's acquisitions are tomorrow's organic growth. And we're seeing that from prior acquisitions. The productivity improvements are really quite high.

We've been holding some very serious discussions. We're optimistic about these discussions and the space where we currently exist. We're hopeful we'll be able to communicate positive results in the weeks and months ahead. We're very excited about the strategic objectives that these deals would bring us. We want to stay disciplined. We've said that and we repeat it. And we're only going to do an M&A transaction when it meets all three of our criteria, cultural fit, strategic, and accretive. The discussions we're holding that could emerge in the next weeks, months fit all those criteria. So I think we're being consistent and disciplined, but we're quite optimistic.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Weston Bloomer with UBS. Please proceed with your questions.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Hi. Good afternoon. So my first question, just on the full year organic guidance, does it imply a slowdown versus the 1Q result? And if property is accelerating and it seems – you seem to say that other headwinds are abating. I guess, what else are we missing in the stronger results or where else could we see a slowdown like where client wins or submissions just ahead of your initial expectations? It just feels like the property more than offset the other headwinds you guys have been referencing.

Jeremiah R. Bickham

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

A

Hi, Weston. It's Jeremiah. So the reason we ticked up the floor guidance, well, part of the reason, obviously. We've got one solid quarter in the books, but we thought it was prudent to reiterate the 10%, the implied 10% to 13% outlook that we started the year with. And just as a reminder, we kicked off the annual guidance for 2023 with a 300 basis points range for organic revenue growth because we all thought it was prudent to acknowledge there's a healthy degree of variability and uncertainty, mostly in macroeconomic conditions. But since we last spoke, those factors really haven't improved and a lot of people would tell you they've gotten worse.

Our business, though, is in quite good shape when you look at renewals, submissions, new business, which of course we do. Those indicators, all very, very healthy. But as I said to Elyse a moment ago, it's still very early in the year and there's not much new information since we last spoke. And while Q1 was solid, it's still our smallest quarter. So we've factored all that in as we raised the floor and have basically just reiterated the 10% to 13% range that we started with. Q2 off to a good start. And in spite of all the macro uncertainty that still exists in the economy that all companies are facing, we're really confident in our ability to deliver on this guide range.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Thanks. And could you expand on the macro backdrop that's implied within the guidance range either from like a GDP or inflationary perspective?

Jeremiah R. Bickham

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

A

Well, just a couple of examples. The IPO market or lack thereof has an impact on a public D&O pricing that is a headwind for everyone in the space. Global economic conditions, including rising interest rates, are affecting M&A volume, which globally is down 20% to 40%, depending on who you're reading.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Great. And you referenced in the prepared remarks the build out of the employee benefits practice. Can you just give an update on where you are there and some of the initiatives you're taking to grow that?

Patrick G. Ryan

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

A

Yeah, sure. We're quite optimistic that we'll be able to announce activity relatively soon. I mean, completion – we've talked about a lot of activity. But they're in that area that area that I talked about, having serious discussions. We've spent a good amount of time defining the exact role that we should be playing. And we're very optimistic that where we're going to be playing has significant organic growth potential and should have quite good margins.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Great.

Patrick G. Ryan

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

A

That's about all we want to say about that at this point.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Thank you. Appreciate the answers.

Operator: Thank you. Our next question is from the line of Tracy Benguigui with Barclays. Please proceed with your questions.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Thank you. Just a follow-up. You mentioned the headwinds related to public company D&O should improve by the second quarter. Is that because you've already seen reverse flow to the admitted market, so you already contemplated that when you developed organic revenue guide?

Jeremiah R. Bickham

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

A

Correct. We were not predicting a change in the overall D&O market. We just think to the extent that there was business in our book that could be placed directly, that after a full lap, we'll be through most of that.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Great. And in your updated guide, you reiterated your EBITDA margins, but you're tracking behind that. I get there is some seasonality factors, but what are the key drivers you're contemplating to achieve this guide?

Jeremiah R. Bickham

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

A

Well, as a reminder, we would, in most years, expect Q1 and Q3 to be lower or smaller from a size perspective in terms of revenue and then lower from a margin perspective and often below the annual rate that we expect. And sort of the inverse for Q2 and Q4 and appreciate that it's difficult to model these on a quarterly basis. Particularly last year, we did quite a bit of hiring and T&E was still ramping up. But actually, Tracy, the relationship of our margin and our revenue growth for this quarter was very much in line with our expectations and actually make us that much more confident in the guide range that we're reiterating today. And as we said just two months ago on the year end call, again, uncertainty and variability that we felt it was prudent to reflect in not only the organic growth guide range, but the margin guide range. And since Q1 is the smallest seasonally, it's really not prudent to deviate from that at this time.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Rob Cox with Goldman Sachs. Please proceed with your questions.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Maybe a specific question to kind of the large State of California. The premium growth there has been negative. And I think it's been a drag, especially relative to some of the South Eastern states. Just curious, what's driving that and when you think that could potentially turn around?

Timothy W. Turner

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

A

Well, our position in the Southwest and California in particular has been driven by wildfire exposures to a high degree, creating a lot of opportunities for us and high net worth construction, habitational, transportation is a big

position for us in California. So the market share for us in California, I believe, we're an industry-leader on surplus lines tax in California. So we're very bullish on the volume of business being dumped into the E&S channel.

Robert Cox*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. That's great. And maybe just with respect to the margins, I think this is the most difficult comp with regards to T&E for the year. So I was wondering if you guys could quantify the T&E headwind in the quarter and maybe just a comment on how you expect margins to sort of progress over the remainder of the year?

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

A

Yep. So you are absolutely right. T&E is going to have the most – it's going to be the worst comp for T&E in Q1. There's still some ramp-up that will flow through for Q2, same issue with the hiring that we did, too. There's a ramp-up that's going to affect the comparable margins in Q2. It definitely does get better as the year goes on, just because the hiring will be represented in more of the quarters. And by the end of the year, T&E was a lot closer to what we expect on an annual rate this year. So it does improve. And like I said, with the margins that came in this quarter, we're very confident in the range that we're reiterating today.

Robert Cox*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Great. Thank you.

Operator: Thank you. Our next questions come from the line of Ryan Tunis with Autonomous Research. Please proceed with your question.

Ryan Tunis*Analyst, Autonomous Research US LP*

Q

Sorry. I was on mute. Good evening, guys. First question, I guess when we last spoke, it seemed like you guys thought that the 1Q organic, I don't know, it felt like it might be running lower than the full year guide in the first or maybe in the second quarter. What better than your expectations that got to the nearly 13% this quarter?

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

A

Well, I think what we really guided to was that the property market was growing nicely in the fourth quarter and that we expect to continue and it has.

Ryan Tunis*Analyst, Autonomous Research US LP*

Q

Got it. And then, I guess we're not really quantifying these headwinds specifically, but if you had to take a guess, like between the macro side of things and the D&O side of things that seem to be kind of the biggest driver. What percentage of it is kind of macro related and what percentage of it is D&O related?

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

A

Well, there's overlap between macro, Ryan, and D&O because we at least believe that the macroeconomic environment is affecting the amount of IPOs, which has an impact on the overall D&O market, which affects

pricing, so there's overlap there. You could maybe break it down to macroeconomic headwinds that affect everyone and then things that are more specific to our book or our business mix. But we haven't and won't try to break that out or reconcile it here. I think what you can takeaway though is that the net of all of that, all the headwinds in D&O, M&A volume, parts of our construction book, all very much alive and well. But the teams are finding other ways to win and fight through it. And if our prediction our hope that the worst of one of our bigger headwinds, a public company D&O, is past us by the end of Q2, it does set us up for a very strong H2 of this year.

Ryan Tunis*Analyst, Autonomous Research US LP*

Q

Got it. And then just last I guess on these headwinds, Tim mentioned that there are also some admitted carriers pulling business back a little bit, cyber becoming a little bit of a tougher market too. Like this I guess to me sounds like the normal [indiscernible] (00:33:01) the business responds at the end of a hard market when things become more rate adequate. So I guess my question is, why would you think that these headwinds wouldn't continue to become bigger headwinds as the year goes on? What makes you think that they're actually going to mitigate [indiscernible] (00:33:18) back half of the year?

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

A

Well, those headwinds that we mentioned are outliers. They're very narrow lines of business that public D&O, you could see the impact of the business going back into the standard market. Cyber is really rate declines and a little bit of movement on the business. Construction is even more narrow. It's residential construction, frame construction, and there's just a slight slowdown that we think is related to interest rates. The overall market is very strong, and the flow of E&S business into our channel in the first quarter was up double-digits. So it continues to expand. It continues to grow and we see a very firm market all the way through 2023 and even beyond that. So there's no letup whatsoever.

Ryan Tunis*Analyst, Autonomous Research US LP*

Q

Thanks, Tim.

Operator: Thank you. Our next question comes from the line of Mike Ward with Citi. Please proceed with your questions. Mike, could you check if you're on mute, please?

Michael Augustus Ward*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Sorry, guys. Sorry, guys. I was just wondering if you could go over cash flows and wondering if there are any onetime items in the quarter?

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

A

No, no. No onetime items. Some of the bigger, unusual, lumpy items that were flowing through operating cash flows were what we basically think of as earn-outs paid to people and that have to run through comp and then flow through operating versus investing cash flows like an acquisition would. We did put out a nine figure cash outlay for an acquisition in Q1. And then we have a huge seasonal working capital draw in Q1 because we accrue bonuses for our producers and sort of true them up twice a year and the biggest true up is in Q1. So we relieve a

lot of accrued comp expense that you'll see every year on the balance sheet at 12/31 in Q1. So it's a net negative operating cash flow because of that.

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you. And then maybe just broadly, I think you talked about strengthened transportation practice. So we're hoping for a little bit more color on how that's performing in terms of rate and flow?

Timothy W. Turner

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

A

Transportation market remains very, very firm. It's a loss leader in the reinsurance world. Our investment in Crouse and Associates on the West Coast has started to pay some very nice dividends. We're in every aspect of transportation, whether it be in long-haul trucking, delivery, shared economy. We have transportation units in several of our offices across the country, and that continues to do a lot of damage in the reinsurance world. And we look for transportation as a whole to continue to get more difficult and firmer in the quarters ahead.

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Q

[ph] Thank you, guys (00:36:57).

Operator: Thank you. [Operator Instructions] Our next questions come from the line of Derek Han with KBW. Please proceed with your questions.

Derek Han

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi. Thank you. So I think, Tim, in your prepared remarks, you talked about the healthy submission flows in transportation, healthcare, and other markets, and as well as real estate, which I think it's new. Can you just talk about what's going on in real estate and what your outlook is if the macro worsens?

Timothy W. Turner

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

A

Sure. Habitational on the casualty side of the house is one of the hardest parts of the casualty market. It's again a loss leader in the reinsurance world, it's done a lot of damage to the balance sheets of standard markets, and the rates continue to go up even in the E&S sector as we renew these accounts. Social inflation, the economic impact, loss cost factors having a huge impact on the deterioration of losses on these large accounts. But it spans through a very wide class of business, apartments, any type of habitational group of risks that come into the market are getting rate, significant rate increases. So I would say that's probably one of the hardest parts of the casualty market today, with no letup in sight. And again, on the property side, it can be equally as difficult. So we see that class of business come in on both cylinders.

Derek Han

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. That's helpful. And then my second question is on just a competitor called that slower organic in their wholesale segment due to capacity constraints. We didn't really see that in your numbers at all. Your organic was very strong. Are you seeing any capacity constraints and maybe what makes you kind of different from other peers?

Timothy W. Turner

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

A

Well, there is a capacity constraint, but it's again in a very narrow class of business and it's high net worth, it's personal lines. There's a wind and flood capacity shortage. And so we're doing very well despite that. We're attracting more aggregate and more wind capacity, but it's tough. It's a loss leader in the standard markets. And we're rolling up our sleeves and bringing in as much of that wind aggregate as we can. But it's tough out there.

Derek Han

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thank you.

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

Patrick G. Ryan

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

Well, thank you very much for your support and for your interest. Good questions. We're very optimistic as you can tell. We feel our company is strong going – things are going quite well. So we'll be meeting some of you at meetings. But we look forward to the next quarterly report. Thank you.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

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