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Ryan Specialty Holdings, Inc. (RYAN)

Q2 2023 Earnings Call

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

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for joining us today for Ryan Specialty Holdings Second 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 filing 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 non-GAAP financial measures to the most closely comparable measures prepared in accordance with GAAP are included in the earnings release, which is filed with the SEC, and available on the company's website.

With that, I'd now like to turn the call over to the Founder, 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. With me on today's call is our President, Tim Turner; our CFO, Jeremiah Bickham; our CEO of Underwriting Managers, Miles Wuller; and Nick Mezick from Investor Relations.

Ryan Specialty had a great quarter with strong momentum continuing across all of our strategic, financial and operational objectives. We grew total revenue 19.1%, led by organic growth of 16.1%, building on the 22.3% organic growth in the second quarter of 2022.

We also achieved double-digit growth in adjusted EBITDAC and adjusted net income on a year-over-year basis. We saw broad-based strength across our specialties, particularly in property, and in many individual lines of business. The specific headwinds we noted on our prior calls were in line with our expectations, and partially offset some of the very strong tailwinds we experienced in property. Overall, I'm very pleased with our performance in the quarter and throughout the first half of 2023.

In addition to delivering great results, we continued to execute on our M&A strategy. In July, we completed three attractive and strategic acquisitions, which added scale and scope to our wholesale specialty and launched our benefits practice. The first is Socius Insurance Services. With approximately \$40 million of annual revenue, Socius adds high-quality talent to our professional lines and cyber teams, and deepens our scale and scope in key hubs like San Francisco, Tampa and Miami.

We are confident in the outlook for this business, given our long-standing familiarity with the team and our proven ability to help firms grow on our platform through our relationships with the top 100 retail brokers access to our proprietary products, and expand carrier relationships. We also completed two employee benefits acquisitions, Point6 Healthcare and ACE Benefit Partners, adding just under \$10 million of annual revenue. These firms provide exceptional talent and foundational capabilities to Ryan Specialty benefits. We have diligently assessed opportunities in the benefits market, targeting firms that have a track record of both growth and long-term margin greater than the industry average. And these medical stop-loss medical firms are perfectly aligned with those attributes.

Medical stop-loss insurance plays a vital role by smoothening the volatility in healthcare spend through reinsuring a self-funded benefits plan against high-cost claims. We expect medical stop-loss insurance to continue to play a crucial role in financing and risk mitigation strategies, particularly as healthcare innovation accelerates, and high-cost drugs and gene therapies become more prevalent. We are pleased [indiscernible] (00:05:00) over \$25 billion in premium in the US, with a 12% compound annual growth rate since 2014. We believe there is a long runway for both organic and inorganic growth in benefits, and are excited to add these capabilities to our specialties.

Further on the M&A front, our pipeline remains robust. 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. Each acquisition must be a strong cultural fit, strategic and accretive.

We continued to make targeted investments during the quarter as we brought on additional talent to further enhance our current capabilities, and developed areas where we anticipate our clients need us in the future. 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.

That takes us to ACCELERATE 2025, our two-year restructuring program announced earlier this year. We are making investments that will enable continued growth, drive innovation, deliver sustainable productivity increases over the long term, and accelerate margin improvement. We have made solid progress in the second quarter, which Jeremiah will discuss further. We remain on track to generate a targeted annual savings of at least \$35 million in 2025, with cumulative special charges expected to be at least \$65 million through the end of 2024.

Throughout the second quarter, the E&S marketplace remained robust. E&S continues to provide solutions that are otherwise not available for hard-to-place risks. 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 our clients need us the most. We have also continued to expand our ability to serve brokers, agents and carriers through innovation and creating alternatives to traditional insurance placements and areas like cat property and transportation.

Looking ahead, we expect favorable specialty insurance market dynamics to persist. And we remain confident that 2023 will continue to be another strong year for our firm. We're in a prime position to capture broader E&S tailwinds, and also further capitalize on our specific lines of accelerated growth. Our differentiated business model allows us to remain ahead of the competition, and our flexibility enables us to quickly adapt and pivot when market conditions shift. We continue to expand our total addressable market through innovation and strategic acquisitions, and further deepen our moat with scale, scope and intellectual capital. We're able to do all of this because of our exceptional team, who consistently deliver impressive results and value for our clients, trading partners, and ultimately, to our shareholders.

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

Timothy W. Turner

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

Thank you very much, Pat. As Pat noted, it was another strong quarter across our specialties as we continue to successfully execute on winning new business and producing innovative solutions for our clients. The effects of industry trends, such as climate change and natural disasters, accelerating social inflation and broad-based economic inflation happening concurrently with reduced insurance capital, a pullback in underwriter appetite, and market exits make for an incredibly challenging insurance market. Additionally, continuous change in the loss environment, and growing uncertainty and reserve adequacy is driving more risks into the E&S marketplace, which offers significantly more freedom of rate and form. Given our specialized and industry-leading team's ability to navigate the complexities of the market, we plan to continue delivering for our clients, and expect to further expand our market share.

Diving into our specialties, our Wholesale Brokerage specialty generated another quarter of strong growth. In property, elevated levels of attritional and secondary perils, including severe convective storms, and persistent inflation from higher cost of materials and labor shortages are driving up loss costs.

Additionally, market conditions, including higher reinsurance costs, reduction in available capacity, and ongoing requirements for proper valuations are driving higher retentions of risk and ultimately more volatility into the US direct property market. These factors are continuing to drive flow of new business into the E&S market. The E&S market is responding. Yet it is also experiencing more conservative appetites, significant rate increases and tighter limit management, especially on coastal property, severe convective storms, wildfire, flood and earthquake risk.

We are well-positioned to assist our clients in navigating the complexities of this market. Our A+ team of experts are working tirelessly to bring important and creative solutions to our retail brokers and trading partners in this challenging market. Our transportation practice continue to see substantial flow in the quarter fueled by social inflation, carrier need for continued rate increases, and a pullback in underwriter appetite and market exits. We continue to win more than our fair share of new business, and remain well-positioned to capitalize on additional growth opportunities. Our casualty practice also performed very well in the quarter. We continue to see higher loss trends, inflation and reserving issues drive more flow into the E&S channel across both primary and excess casualty, particularly in lines like healthcare, habitational, and real estate.

And as Pat noted, we completed the acquisition of Socius at the beginning of July, and are excited about the addition of new teammates who have hit the ground running, and are a clear cultural match with Ryan Specialty. Overall, our Wholesale Brokerage specialty continues to successfully execute its game plan, and we see a long runway of consistent growth ahead.

In our Binding Authority specialty, we saw another quarter of solid growth in traditional binding, which includes small commercial business and growth in personal lines, despite continued capacity constraints. 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 also generated strong results, led by continued steady and profitable growth in property and casualty, and our reinsurance MGU, Ryan Re.

We also launched our benefits practice with the acquisitions of Point6 Healthcare and ACE Benefit Partners. Our team was extremely thoughtful in determining where we could best add value in this large and important market. And medical stop-loss is where we see a clear opportunity for rapid expansion within this fast-growing specialty niche. John Zern and his team are hard at work expanding our sales force in this practice. We look forward to updating you on the progress of benefits in the quarters ahead.

As we had mentioned on our prior call, and as Pat just noted, the specific headwinds in certain lines in the second quarter, namely public company D&O, lower external M&A volumes and transactional liability, and delayed starts and construction, remained in line with our expectations. We expect any growth benefit in these three lines to be modest in the second half of the year.

Turning to price. Through Q2, we remained in the prolonged stages of a historically hard market. Pricing in the E&S market largely held firm or accelerated in many lines of business, with property continuing to see the strongest rate momentum. Exceptions remain public company, D&O and cyber, where we saw further pressure. As with all cycles, as pricing continues to increase and certain lines are perceived to reach pricing adequacy, we see admitted markets step back in uncertain placements, particularly within large towers. But overall, we still have yet to see the standard market meaningfully impact rate or flow in the aggregate. We continue to expect the flow of business into the non-admitted market 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 19.1% period-over-period to \$585 million, fueled by another strong quarter of organic revenue growth at 16.1% as we continue to benefit from the ongoing tailwinds in much of the E&S market, particularly property, broad-based strength in many of our individual lines, and our ability to win substantial amounts of new business.

Net income for Q2 2023 was \$84 million or \$0.26 per diluted share. Adjusted net income for the quarter was \$124 million or \$0.45 per diluted share. Adjusted EBITDAC for the second quarter grew 16.9% period-over-period to \$194 million, while adjusted EBITDAC margin declined 60 basis points to 33.2%. Our EBITDAC margin was impacted by continued investments in our business, including last year's hiring, and T&E continuing to return to normalized levels, both of which were partially offset by higher fiduciary investment income.

Turning to our ACCELERATE 2025 program, we had approximately \$17 million of charges in the quarter as the program was able to move into full swing slightly ahead of schedule. We remain well on track to generate annual savings of at least \$35 million in 2025, with cumulative special charges projected to be at least \$65 million through the end of 2024.

As Pat noted, we also continued to make targeted investments in the quarter, adding underwriting and broking talent to our ranks, and expect consistent recruitment efforts to continue in the back half of the year. The cost of these investments, along with the annualization of our 2022 head count growth will continue to impact margin, but will be partially offset by increases in fiduciary investment income. These investments in talent, particularly recruiting new colleagues, offer the highest returns for our shareholders, and are part of a proven winning formula to maintain our long-term growth prospects.

Based on our current forecast, we expect to record GAAP interest expense, which is net of interest income on our operating funds of approximately \$31 million in Q3, and \$29 million in Q4. As a quick reminder, we paid for our three most recently announced acquisitions at the beginning of Q3, which reduced our operating funds relative to the 6/30 balance sheet. We are now guiding organic revenue growth rate for the full-year 2023 to be between 13.0% and 14.5%, up from our previous guide range of 10.5% to 13.0%. We are maintaining our full-year adjusted EBITDAC margin guidance range of 29.0% to 30.0%. In summary, it was an excellent second quarter and first half performance by Ryan Specialty. We remain very excited for both our near- and long-term prospects.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] The first question we have is from Elyse Greenspan of Wells Fargo. Please go ahead.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Good evening. My first question is on the updated organic growth, right, 13% to 14.5%. You guys were 14.6% for the first half of the year. And it sounds like there will still be some impact of the headwinds in the second half when we are analyzing them. So, why wouldn't organic growth be stronger in the back half or is there just some level of conservatism built into the guidance update?

Jeremiah R. Bickham

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

A

Hi, Elyse. Thanks for the question. So, first off, just want to acknowledge we had a very good quarter that we're quite proud of, and really the end to a very solid first half of the year.

As you noted in our prepared remarks, we got a big boost from property this quarter, and because seasonally Q2 has the highest amount of property and property cat business in our portfolio, that's why. And thus, we are expecting less of a lift from property in the second half of the year, but otherwise we're implying that H2 will play out very similarly to H1, which means strong growth across the board, including double-digit growth contribution from our very balanced casualty portfolio as well. So, overall, we feel great about where we're headed in H2, and we're very confident we can land within our increased organic growth guide range, which we feel would represent another very solid year for Ryan Specialty.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

And then, so Q2, Jeremiah, staying there for a second, Q2, right, I know you guys have said, right, is the highest property concentration quarter. The other three quarters, are they all pretty close from a property perspective or would one stand out as having a higher concentration next to the second quarter?

Jeremiah R. Bickham

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

A

So, Q2 is far and away the largest. And if you're just looking at percentage attribution of business, it doesn't even tell the whole story because not only does it have the highest overall property contribution, but it's the highest cat property quarter of the year by far. The next highest is Q4. But we did experience a benefit in the last couple of weeks of Q4 from property rates surging. So, we're not counting on the exact same growth in Q4 proportionately as we would a quarter like Q2, if that makes sense.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

That does make sense. And then in terms of the M&A pipeline, you guys highlighted some of the activity during the quarter. How does the rest of the pipeline look just in terms of other potential deals out there?

Patrick G. Ryan

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

A

Thank you, Elyse. It looks good. As I said, it's a robust pipeline. We are in discussions on additional benefits opportunities that will help round out our offering to our clients, add some significant new management talent and production talent. There is no way of knowing when, but it could be quite soon. We're in serious discussions.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Jeremiah R. Bickham

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

A

Thanks, Elyse.

Operator: The next question is from Weston Bloomer of UBS. Please go ahead.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Hi. Thank you. Good evening. My first question is on the margin guidance. I mean, you raised the full-year organic, but left the margin unchanged. Can you just talk to the types of investments you're making in the back half of the year, and maybe what impact you're expecting within your margin guidance around normalization [indiscernible] (00:23:18) or wage inflation or other investments?

Jeremiah R. Bickham

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

A

Yeah. Thank you, Weston. So, as we said for multiple quarters now, the biggest impact to our margin at the moment is our outsized hiring activity from last year, which we know is the right investment for our long-term growth prospects, and we're really confident will pay off in the long term.

And with regard to the guidance, I mean, a quarter like Q2, 33.1% adjusted EBITDAC margin, more than anything, it makes us confident in our guide range and increases the likelihood that we'll end up at the high-end of that range. And again, just to remind everyone, we had 25% margins in 2019, so, our model definitely scales. And next year, we won't have the same margin impact from our hiring this year. So, we feel very good about margin improvement as time goes on.

But in the meantime, as you said, T&E is still ramping up. It's not ramping up as significantly as it was in 2022 relative to 2021, but still an impact there. And then, the biggest impact, again, is just the annualization of last year's hiring. And we're not making outsized hires at that same scale, but we are making a more normalized maintenance and growth level of hiring this year that we're really excited about.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Great. That's helpful. And the three M&A deals that you did in the quarter, does that impact your margin profile either favorably or adversely or maybe change the seasonality of your EBITDAC or revenue?

Jeremiah R. Bickham

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

A

They're too small to have an impact. And then, generally, what we tell people is to think of acquisitions as coming on at the same margin and the same growth rate. If there's an acquisition that is significantly different enough and significant in size enough to move the needle, we will let investors know.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Great. And then, last question for me. I know you have a partnership with Nationwide, and they had pulled out of E&S commercial auto. Was there any impact of that within your numbers or can you just comment on where your relationship is with them?

Timothy W. Turner

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

A

Yes. We certainly noted Nationwide's withdrawal from commercial auto. But we have a wide product line, and several other carriers that we can employ and to absorb that business. We're expanding our transportation department, as we've mentioned before, and we were ready for that change. The acquisition of Crouse and Associates really strengthened our bench and gave us a national breadth and depth, and not just brokerage transportation, but underwriting. So, we're looking ahead, and we can absorb and make those changes without any effect.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Great. Are you sizing that impact at all [indiscernible] (00:26:26)?

Timothy W. Turner

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

A

We're looking at double-digit growth in transportation, in underwriting, and in broking. We're creating facilities, MGUs, expanded Binding Authority product line, and that really doesn't put or have any negative impact in our ability to grow.

Weston Bloomer

Analyst, UBS Securities LLC

Q

Great. Thank you.

Operator: The next question we have is from Mike Zaremski of BMO Capital Markets. Please go ahead.

Mike Zaremski

Analyst, BMO Capital Markets Corp.

Q

Hey. Good evening. My question is a follow-up to the question on margins relative to the pace of hiring. I guess, are there any numbers you could help put context to the excess pace of hiring you made, I guess, because we don't have as long of a history to kind of understand kind of – we can see how many people you added in 2022 versus 2021. But we can't take a long-term average. So, I'm just trying to get a sense of any context you could put around, like did you, with the pace of hiring, 5 points more than you think is kind of "normal", so we can kind of better understand, try to size up the impact it's had to your margins.

Jeremiah R. Bickham

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

A

So, I won't be able to put it in basis points for you, Mike, but think of it as over a 1.5 times normal size production class relative to a normal year. And you're right, looking at head count won't tell you the whole story because it's generally the production folks that are the needle mover.

One thing we can tell you, and we've said this a bunch is that production classes, as a cohort, will cover their costs after two years, and generally be margin accretive sometime in the third year. So, that's why we're confident that the 2022 class won't be weighing down margin, come 2024. And like I said, we're not onboarding an outsized class in 2023. And if we only made normal size hiring classes, there wouldn't be an impact in the following year. We can still scale somewhat if we're just hiring at an average level.

Mike Zaremski

Analyst, BMO Capital Markets Corp.

Q

Okay. That does help. And just sticking to margins, just curious, are there any other things changing on the margin, no pun intended, kind of like on commission rates or, I don't know, just wage inflation we should be thinking about or has that would changes versus three to six months ago that we should be contemplating as well.

Jeremiah R. Bickham

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

A

Nothing on commission rates. Those are stable. Great question. On wage inflation, we're not immune to it because there are plenty of folks who're running around on salaries. But the majority of our comp expense is commission based. And so, it doesn't get impacted by wage inflation the same way. So, yes, it has an impact on us. I'm sure you've heard everyone talking about it, but it's not – that alone, wouldn't have the same margin impact that is worthy of as many references as we've made to what's happening in our comp margin right now. It's the sheer number of hires that we made last year on the production side.

Mike Zaremski

Analyst, BMO Capital Markets Corp.

Q

Okay. Great. And lastly, just – you gave us some good commentary about flows into the E&S marketplace. But you also talked about there being even some appetite constraints within the E&S marketplace. But, just curious, anything you've seen, any stats you'd want to talk about that you've seen in July, if you're seeing any change in acceleration or deceleration in inflows over the past month. Thanks.

Timothy W. Turner

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

A

No, it's been quite steady. The flow has been measurable, and increased in many lines. Some deceleration, as we talked about, in public D&O and widely noted in cyber. But so many other lines, not just cat property, but many casualty lines continue to harden. And so, the flow into the channel and our ability to capture it continues to get stronger. And we feel we're converting a higher percentage of that business. And we've been building our bench for years to try to win as much of that business as we can. It's working out very well.

Mike Zaremski

Analyst, BMO Capital Markets Corp.

Q

Tim, what casualty lines are there? Are they more kind of large account or small account? And I promise it's my last follow-up.

Timothy W. Turner

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

A

Oh, no problem. It's a combination of small commercial certainly in our Binding Authorities and our MGUs. But it's larger brokerage business as well. Large habitational schedules in the casualty side continued to pour into our channel: residential construction, New York construction, to name a few; transportation, as we've mentioned; health care; nursing homes; assisted living; certain social and different types of health care; sports and entertainment continue to be a very difficult line where they need our help; consumer products; and maybe lastly, public entity, real demand for property and casualty solutions in the specialty side across the whole public entity sector.

Mike Zaremski

Analyst, BMO Capital Markets Corp.

Q

Thank you.

Operator: The next question we have is from Rob Cox of Goldman Sachs. Please go ahead.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Thanks for taking my question. So, I noticed the adjusted compensation margin was down a good bit year-over-year despite the talent investments. But the adjusted G&A ratio was higher than the first quarter when it's seasonally lower. So, I would have thought that would be a little bit lower, I think as the first quarter, if I recall correctly, was your toughest comp with respect to travel and entertainment. So, is there any additional color you can provide there?

Jeremiah R. Bickham

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

A

Yeah. A little bit of that, or I shouldn't say a little, some of that is T&E, and then another bit of that is professional services that increased significantly this quarter relative to prior quarters related to a new revenue stream that just requires additional professional services. Over time, that may water-bed into comp if we decide to in-house some of those, but for right now they're through professional services.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you. And maybe just another question on the State of California, which I think is nearly 15% of the E&S market based on data that we look at. I think it's been a net drag on overall E&S industry premium since November of last year. But we've seen it tick-up positively in the double digits in the last two months, which I suspect might be driven by personal lines and property. So, I'm wondering if you see growth in California in the back half of the year, and how well-positioned Ryan is to potentially take advantage of some of those tailwinds if they're there.

Timothy W. Turner

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

A

We're very well-positioned in the State of California. We have multiple offices. Two of our last large brokerage acquisitions are in the state of California. We've strengthened ourselves there, deep benches in property and casualty and binding. We're building and finishing up a high-net-worth personal lines facility to complement what

we've already been doing in personal lines. So, we're there to capture that business and to deliver for our clients across California and the West Coast.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

That's great. And maybe if I could sneak in one more on cyber. Tim, I think I noted you had recently stated that the cyber market is getting skittish again, but I think there's still pricing declines in that market. So, I guess my question is are you growing in that market, and do you expect growth to pick up or slowdown in the back half of the year?

Timothy W. Turner

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

A

Well, there is no question there is rate deceleration, and the flow has slowed a bit, but we're still capitalizing on it, it's still a very great opportunity for us. We're well-positioned in Binding Authorities, MGUs, which Miles Wuller can talk about a little further. But our cyber team is number one in the country, and they're performing at a very high level. Our clients still need us.

Miles?

Miles Wuller

President & Chief Executive Officer-Underwriting Managers, Ryan Specialty Holdings, Inc.

A

Yeah. I'll chime in. So, we have noted deceleration in cyber previously, and there has been modest negative change most observable in the access layers. But please keep in mind this was relative to market particularly that's achieving 85% rate increase in the first half of last year. So, investments by corporate risk managers have curbed losses, substantial price hikes have helped [indiscernible] (00:36:37). It has brought some new capital to this space. But however, despite the shifting pricing, the overall opportunity remains immense. The cyber threats persist, and where the industry is still anticipating structural growth is averaging 20% per annum for the foreseeable future. So, we're well-positioned with people and product to capitalize on that.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Appreciate the color. Thank you.

Operator: [Operator Instructions] The next question we have is from Meyer Shields of KBW. Please go ahead.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. I want to follow up on cyber, if I can. Is there any seasonality analogous to what we're seeing in property where cyber is a bigger factor in a particular quarter?

Miles Wuller

President & Chief Executive Officer-Underwriting Managers, Ryan Specialty Holdings, Inc.

A

There is not material seasonality to cyber.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Perfect. And second question, I think it was probably for Jeremiah. A very significant tick-up in fiduciary assets going from the end of the first quarter to the end of the second quarter. Is the seasonality that we've seen historically bill a good proxy for how fiduciary funds are coming up.

Jeremiah R. Bickham

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

A

When you say recently, are you talking about the first half of this year or since you've been following us, just want to make sure I understand the question?

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

I mean, first half of this year, in other words, we saw a pretty big increase going from the first quarter to second quarter last year and also this year. And I'm just wondering whether the ebbs and flows should be roughly the same every year.

Jeremiah R. Bickham

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

A

I was actually talking to the Treasurer about this earlier this week. I would classify everything that you're seeing in our fiduciary balances as normal factors in timing that can happen. There's been no change to our DSO, no material change to business mix, even though the different – obviously, wholesale and delegated authority do have different payment terms than DSO. When it when we acquire businesses will impact fiduciary balances, but there is nothing to read into in terms of a material change. It's normal timing factors.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Perfect. And then, final question, if I can, for Tim. It sounds based on everything that we're seeing, that maybe growth will slow down because we're lapping normal quarters. Are you seeing competitors pull back on that? Is there a specific opportunity from that particular aspect of marketing?

Timothy W. Turner

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

A

No, we're not seeing any real pullback on that. But I'm not sure I understood the question. Could you repeat that?

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah. I'm just wondering, with [indiscernible] (00:39:50) observably much more expensive, I'm wondering whether you're starting to see some competitors say we're just going to do less of that and whether there is an opportunity for growth when that happens.

Timothy W. Turner

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

A

No, I haven't seen that. In fact, I think it's as competitive in our space as it's ever been. We're attending events, and on the road, seeing our clients and our underwriters continuously. We're back to full speed ahead. And I don't see any pullback from our competitors, actually.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. That's very helpful. Thank you.

Q

Operator: The next question we have is from Michael Ward of Citi. Please go ahead.

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Hi. Thanks, guys. I was wondering, in benefits, what capabilities you might be looking to add? Is it more medical stop-loss or other areas?

Q

Patrick G. Ryan

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

Yes. It's medical stop-loss, as I'm sure you know, is rapidly growing, moving from fully funded benefit plans to self-insured plans. And what interests us greatly is the phenomenon of the size of employer who is moving into self-insured, and funding through group captives, in other words, pooling with other employers – employer groups of similar size, characteristics. And so, our strategy is an integrated health solution, heavily driven through self-insured clients, who ultimately we believe in large numbers, are going to want to be funding that by putting up some of their own capital in group captives.

A

So, it's a process of providing services to retail brokers who may not have the resources to provide these services and, frankly, an ability through our professional skills of the talented team that we've assembled to bring innovative, integrated health solutions coupled with these self-insured plans that I talked about, and then bringing a very innovative funding mechanism. So, we believe that the benefit strategy that we have is going to be significantly accretive to our total addressable market. We'll be picking up a lot of clients that we believe will be interested in what we're offering. And then, we think we have cross-selling opportunities in the P&C side. So, we're very excited about that.

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Thanks. That's helpful. And then, maybe just on the 2025 savings plan. I think you mentioned this, but could we – should be potentially be expecting to see savings a little bit earlier than that, or timing is still the same?

Q

Jeremiah R. Bickham

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

No. Timing is – we're a little bit ahead of schedule on execution. But the material impact to the P&L is on the same schedule. So, no saves this year, some in 2024, which will be reflected in our guidance next year, and then the full annual \$35 million in 2025.

A

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Thanks, guys.

Q

Timothy W. Turner

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

A

Thank you.

Operator: The next question we have is from Tracy Benguigui of Barclays. Please go ahead.

Timothy W. Turner

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

A

Tracy, do we have you?

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Can you hear me?

Timothy W. Turner

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

A

We can now.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Can you hear me?

Timothy W. Turner

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

A

Yes.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay. Sorry. It would be great to learn more about your property, E&S, Wholesale Brokering and Underwriting Management capabilities. Are you more known by the market on the transactional E&S side or you're more known in the larger property direct and facultative market?

Miles Wuller

President & Chief Executive Officer-Underwriting Managers, Ryan Specialty Holdings, Inc.

A

Yeah. Tracy, it's Miles Wuller. So, I'll start on the delegated authority side. So, our property capabilities span habitational property, builders risks, renewables, energy, and most certainly cat property. We're able to efficiently service both the middle market as well as large accounts. Our cat practice is predominantly shared and layered, working some of the largest and most complex risks out there. And so, as far as positioning and expectation side we've noted previously that with our results and expertise, we increased cat capacity [indiscernible] (00:45:32), and I'm pleased to say we continue to add cat commitments even as recently as this week. So, we've been prudent deploying our cat aggregate, and have substantial dry powder which points a continued great contribution into the end of the year.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay.

Timothy W. Turner

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

A

And I would just add, our brokerage capabilities are industry-leading. We've been capturing a high percentage of this new business pouring into the channel. I believe our outstanding leadership team in the brokerage cat property arena is doing a fabulous job. And that was a big part of our success in the quarter. We look forward to capturing other difficult property risks as we move on through the year. There is much more to it than just cat wind.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay. Excellent. There is a number of new E&S carriers, including some UK insurers, which may be a move to be more efficient on the Lloyd's distribution efforts. What I'd like to know is, does this move just cut one layer in that value chain like business you would have seen anyway, or does bypassing Lloyd's give you a new business opportunity?

Timothy W. Turner

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

A

No, I would say the net positive on that is it enhances and strengthens our ability to market the business. Lloyd's is obviously an industry leader in the E&S market, but there is multiple access points, and they're a major player in our Binding Authorities, our MGUs, open brokerage, London access points. So, it's a heavy-duty player. And then, creating these two E&S facilities that we've been reading about, I see that as a very positive influence in our ability to solve these catastrophic challenges.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay. Just to be clear, is that business you would have seen anyway or is that new business that you would now see?

Timothy W. Turner

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

A

It's a combination of new and renewal business that just enhances our capabilities and strengthens them.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

Operator: We'll move on to our next question, which is coming from the line of Ryan Tunis with Autonomous Research. Please proceed with your question.

Ryan Tunis

Analyst, Autonomous Research US LP

Q

Hey. Thanks. Good evening, guys. So, just another follow-up on cyber. Trying to understand some of the businesses that are capable of moving the needle on your organic when you have sharpened selections. Obviously, we know D&O can do it, we know property can do it. But is cyber one of those businesses where when you really do have big pricing swings, it's something that can notably move your headline organic growth rate?

Jeremiah R. Bickham

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

A

So, I would just say broadly – this is Jeremiah, Ryan. Cyber, think of that as a product category, which is – we've said publicly is there is no product that's more than single digits in terms of our overall portfolio. In the case of cyber, it's low-single digits versus property, which is an entire category of products making up a very significant part of the portfolio. So, they're apples and oranges, really.

Cyber is worth talking about it because it's an important topic for insureds, it's an important weapon in the arsenal of our professional lines team, and there is a lot going on. And as Miles said, the opportunities that's big enough where we do expect that it will be a feature worth talking about as time goes on. But it's not as material, for example, as like D&O, as public D&O has been over the last several quarters.

Ryan Tunis

Analyst, Autonomous Research US LP

Q

Got it.

Miles Wuller

President & Chief Executive Officer-Underwriting Managers, Ryan Specialty Holdings, Inc.

A

And Ryan, I'll jump in that even though rate is under pressure, we continue to find ways to grow the new products, new clients and incremental capacity. So, we are achieving growth. And I also think it's important to note that it has been – last year was a relatively benign loss year, a lot of people were looking for outcomes out of the Ukraine-Russia conflict that didn't materialize. But there are increases in attacks year-over-year. There have been some malware incidents. And so, the threat remains a very active risk environment.

Ryan Tunis

Analyst, Autonomous Research US LP

Q

Got it. And then, on the property side, just trying to think about the longevity of this. So, would you say that, like, are the carriers generally coming to market and getting the rate that they think they need on property placements this year or would you characterize it more as there being some type of understanding that in the marketplace in getting to whatever their view is of rate adequacy may take multiple renewals?

Timothy W. Turner

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

A

I would say more of the latter. They're continuing to get increases. The losses continue to come in. As you know, global warming is not going away. It's creating more and more convective storm activity, the wildfire phenomenon. There's just a lot of tentacles to this issue. And we see prices going up. We see capacity shrinking. What took 10 or 20 carriers to build \$100 million tower last year now takes twice as many. Most carriers are shortening their lines, tightening their terms and conditions, and continuing to raise their prices.

So, I don't think we're anywhere near close to where the market can go. The convective storms are really doing damage to balance sheets. The modeling has been off in this area. And so, our services and our products are needed well-beyond the cat winds aspect of property.

Ryan Tunis

Analyst, Autonomous Research US LP

Q

Got it. And then, just one last follow-up for Jeremiah. I apologize if I missed this, but could you give us some idea what the acquired revenues are on the three deals you completed this quarter?

Jeremiah R. Bickham

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

A

It was about \$40 million in aggregate.

Ryan Tunis

Analyst, Autonomous Research US LP

Q

Thank you.

Operator: Thank you. It appears we have no additional questions at this time, so I'd like to pass the floor back to management for any closing remarks.

Patrick G. Ryan

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

Well, thank you, all, very much. Good questions, and thanks for your support and interest in our company. Look forward to speaking to you again in another – at the end of the third quarter. Thank you.

Operator: Ladies and gentlemen, this does conclude today's teleconference and webcast. We thank you for your participation, and you may disconnect your lines at this time.

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