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Ryan Specialty Holdings, Inc. (RYAN)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Patrick G. Ryan

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

Timothy W. Turner

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

Jeremiah R. Bickham

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

Miles Wuller

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

OTHER PARTICIPANTS

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Brian Meredith

Analyst, UBS Securities LLC

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for joining us today for Ryan Specialty Holdings Third 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 statements. These statements are based on management's current expectations and beliefs and are subject to risks and uncertainties that could cause actual results to differ materially from those discussed today.

Listeners are encouraged to review the more detailed discussion of these risk factors contained in the company's filings with the SEC. The company assumes no duty to update such forward-looking statements in the future, except as required by law.

Additionally, certain non-GAAP financial measures will be discussed on this call and should not be considered in isolation or as a substitute for the financial information presented in accordance with the GAAP. Reconciliations of these non-GAAP financial measures to the most closely comparable measures prepared in accordance with GAAP are included in the earnings release, which is filed with the SEC and available on the company's website.

With that, I'd now like to turn the call over to the Founder, 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 third quarter results. With me on today's call is our President, Tim Turner; our CFO, Jeremiah Bickham; our CEO of Underwriting Manager, Miles Wuller. Also with us is our Head of Investor Relations, Nick Mezick.

Ryan Specialty had another strong quarter as we continued to successfully execute on our strategic, financial and operational objectives. We grew total revenue 21.8%, led by organic growth of 14.7%. We saw a broad-based strength across our specialties and the various lines of business, as well as, strong contributions from our recent acquisitions, most notably Socius. This quarter is a great example of how strategic M&A contributes to total revenue growth and will contribute to organic growth in future years. We also generated double digit growth in both adjusted EBITDAC and adjusted net income on a year-over-year basis.

I'm very pleased with our results as the entire Ryan Specialty team continues to perform at a high level and further validate our differentiated business model. Along with our excellent results, I'm excited to note that we continue to execute on our M&A strategy. Before diving into the details, I want to reiterate how we think about M&A. Our M&A strategy is aligned around the evolving and growing needs of our clients in order to create a dynamic value proposition. Our focus is on M&A opportunities with the highest quality specialty distributors, including wholesale, delegated authority and employee benefits.

We are building out our alternative risk strategy, [ph] by structuring (00:03:28) solutions beyond traditional insurance business to support our clients and the needs of the insured, be it for P&C or employee benefit strategies. Through this M&A strategy that we are steadily expanding our total addressable market within specialty insurance and deepening our considerable moat by enhancing our scale, scope and intellectual capital. This, we believe, will help ensure our ability to sustainably grow our platform over the longer-term and perform well over our economic cycles.

Earlier this week, we announced an attractive and strategic acquisition which will deliver immediate value to our clients. We continue to build Ryan Specialty Benefits with the signing of a definitive agreement to acquire AccuRisk, which is targeted to close later this quarter and will add \$25 million of annual revenue. AccuRisk has been part of a medical stop-loss MGU and also provides capabilities in group captives, supplemental health care management and occupational accident. We are excited to bring the highly regarded AccuRisk team on board. Three recent acquisitions in the employee benefit space are now the cornerstone of our medical stop loss and employee benefits distribution and underwriting platform as we are rapidly developing our product and services offering to help our clients with integrated health solutions.

We generally target firms that have a track record of both higher growth and greater long-term margin potential than the industry average. These employee benefits firms are perfectly aligned with those attributes. Further, we continue to believe there remains a long runway for both organic and inorganic growth in medical stop-loss and more broadly employee benefits.

Building on a strong year and executing M&A, our pipeline remains robust. It speaks well to our ability to source a myriad of potential transactions, both tuck-in and larger acquisitions. We remain disciplined in our pursuit of acquisitions, particularly in the current environment, as we will only move forward, when all our criteria are met. Each acquisition must be a strong cultural fit, strategic and accretive.

We continue to make targeted investments in talent during the quarter to further enhance our capabilities in both current and developing lines of business. These investments in talents offer the greatest returns for our shareholders and are part of a proven winning formula to maintain our long-term growth prospects.

Now turning to ACCELERATE 2025, as we continue to execute our restructuring actions, we've identified additional opportunities to drive continued growth and innovation, deliver sustainable productivity over the longer-term and accelerate margin improvement. We now expect to generate annual savings of approximately \$50 million in 2025, with cumulative special charges of approximately \$90 million through the end of 2024.

Turning to the market, E&S marketplace remain robust, providing solutions that are otherwise simply not available for hard-to-place risks. We expect this trend will support our growth and continued for the foreseeable future. As we have 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.

Looking forward, we recognize the more uncertain macroeconomic and geopolitical environment that expect favorable specialty insurance market dynamics to persist, which we believe will provide us with robust opportunities for continued growth. We are well-positioned to further capture the broader E&S tailwinds through a flexible and differentiated business model and capitalize on our specific lines' accelerated growth. Our exceptional team continues to consistently deliver adding value for our clients, trading partners and ultimately 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. The third quarter saw momentum from the first half of the year seamlessly carry forward as we generated double-digit growth across all our specialties. Turning to the market, ongoing industry trends persist, notably an increasingly complex weather and legal environment, a sizable pullback in risk appetite from the admitted market and uncertainty regarding reserve adequacy. These trends are driving more risks into the E&S marketplace, which offer significantly more freedom of rate and form, and is thus able to provide critical solutions for these risks.

Given our specialized and industry leading team's ability to navigate the complexities of the market, we plan to continue delivering and exceeding expectations for our clients. Diving into our specialties, our wholesale brokerage specialty generated another quarter of strong growth. In property, elevated loss activity driven by severe convective storms, higher reinsurance costs, persistent inflation, and ongoing focus on insurance to value and a reduction in available capacity make for an incredibly challenging market. These factors are continuing to drive flow of new business into the E&S market.

The E&S market continues to respond well, providing solutions for insureds, while surplus lines insurers are exhibiting more conservative appetites and tighter limit management, especially around coastal property; severe convective storms, wildfire, flood and earthquake risk. Our teams of experts are assisting our clients in navigating the significant complexities of this market and devising tailored solutions that best fit the insureds' needs.

Our casualty practice also had another strong quarter driven by higher flow into the E&S market in both primary and excess casualty, particularly for large venue risks, healthcare, habitation and real estate, which are all experiencing higher loss trends driven by economic and social inflation and reserving issues.

Our transportation practice continued to see significant flow in the quarter, driven by social inflation, carrier need for continued rate increases, a pullback in underwriter appetite and market exits. We also received strong contributions in the quarter from our new team members that joined us through our acquisition of Socius, which officially came on board at the beginning of July.

Overall, our wholesale brokered specialty remains dedicated to executing on its game plan, which includes continued evolution of strategies and products to meet changing needs and we expect to generate consistent and profitable growth for the foreseeable future.

Our binding authority specialty had an excellent quarter with the trends we saw in the first half of the year continuing in the third quarter, despite ongoing capacity constraints in personal lines. There remains plenty of potential for panel consolidation as a steady long term growth opportunity, and we are well positioned to execute. Our underwriting management specialty also performed very well. Growth was driven by sustained, broad based rate increases, particularly in property; contributions from new growth initiatives such as excess casualty and alternative risk solutions; incremental capacity fueling growth in cat property, transportation and at our reinsurance MGU, Ryan Re; and profit commissions, including many of the strong historical performance in the preceding soft market cycle. We also announced the acquisition of AccuRisk, which adds breadth and depth to our growing benefits practice.

As Pat mentioned in his remarks, our acquisition strategy continues to provide us with new avenues such as alternative risks and benefits to substantially expand our total addressable market. This will enable us to further grow alongside our clients' evolving needs, ensure our ability to sustainably grow our platform over the longer term and perform over economic cycles.

Turing to price, through Q3, we remained in a prolonged stage of historically hard market conditions. 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. Though in a seasonally smaller quarter, exceptions remain in public company D&O and cyber. As with all cycles, as certain lines are perceived to reach pricing adequacy, admitted markets tend to step back in on certain placements. That said, we still have yet to see this play out and the standard market is not meaningfully impacted rate or flow in the aggregate. We continue to expect the flow of business into the not 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 third quarter. Thank you.

Jeremiah R. Bickham

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

Thank you, Tim. In Q3, we grew total revenue, 21.8% period-over-period to \$502 million, fueled by another strong quarter of organic revenue growth coming in at 14.7%. And M&A, which added over 4 percentage points to our top line. Growth was driven by ongoing tailwinds in much of the E&S market, strong renewal retention and our ability to win substantial amounts of new business.

Net income for Q3 2023 was \$16 million. One of the acquisitions we made in Q3, Socius, was a C-Corp at the time of acquisition. Right after closing, we executed a legal entity reorganization by converting Socius to an LLC, which of course made it a pass-through entity for tax purposes and then subsequently transferred the entity to our operating LLC, which is where we typically buy and hold our acquisitions.

The result of these actions was a great outcome for shareholders, particularly with regards to tax efficiency. These actions did, however, create a one-time non-cash deferred tax expense at the public holding company, which created a loss of \$0.04 per diluted share for the quarter.

Since we have no plan to ever sell Socius, we do not expect that tax expense will ever be realized in cash. Going forward, we do not expect any change in the company's annual effective tax rate related to these actions and we will likely pursue a similar strategy with respect to any future acquisitions of C-Corps.

Adjusted net income for the quarter was \$87 million or \$0.32 per diluted share. Adjusted EBITDAC for the third quarter grew 25.8% period over period to \$147 million, while adjusted EBITDAC margin improved 90 basis points to 29.3%, driven by strong organic revenue growth and higher fiduciary investment income and partially offset by continued investment in our business.

Turning to our ACCELERATE 2025 program, we had approximately \$16 million of charges in the quarter. We identified additional opportunities to wisely invest, to drive more efficiencies and thus greater savings. And we remain well on pace to complete the program by the end of 2024. As Pat mentioned, we now expect to generate annual savings of approximately \$50 million in 2025, with cumulative special charges of approximately \$90 million through the end of 2024.

We expect just over half the charges in calendar year 2023, then the remainder to flow throughout 2024. As Pat also mentioned, we will continue making targeted investments in the fourth quarter in talent and recruitment. These investments in talent, particularly recruiting new colleagues, historically have offered the highest returns for our shareholders and are part of our proven approach to maintaining our long-term growth prospects. Based on our current forecasts, we expect to record GAAP interest expense, which is net of interest income on our operating funds of approximately \$31 million in Q4, which incorporates the impact of the AccuRisk acquisition.

Turning to guidance, we are now guiding our organic revenue growth rate for the full year 2023 to be between 13.5% and 14.5%, which reflects an increase of 50 basis points to the floor compared to our previous guide range of 13.0% to 14.5%. In addition, we are raising the low end of our full year adjusted EBITDAC margin guidance range and are now guiding to full year adjusted EBITDAC margin of between 29.5% and 30.0%. In summary, we're very pleased with our third quarter performance and remain very excited about our both near 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. 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 is on your organic growth guide. So you guys raised the guidance for the full year, but you're at 14.7% year-to-date, 13.5% to 14.5% now for the full year and that would imply, right, that the fourth quarter coming in a range of 12% to 14%. So I'm just hoping to get more color. Are you expecting a decel in the Q4? Because I thought that other than the second quarter, the fourth quarter has a higher property concentration and that should be a tailwind or maybe there's just some conservatism built into the guide?

Jeremiah R. Bickham

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

A

Hi there, Elyse. No, your recollection is correct. Q4 is seasonally our biggest quarter. It does have the second most amount of property business, second to Q2. But we did get some of the benefit of the acceleration in property last Q4. And so we've got some measured assumptions about that compounding on itself. If there's a very, very strong showing in Q4, there is some potential upside related to property for sure.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

And then on the savings program, the incremental savings that you guys are announcing tonight, are those expected? So the \$50 million versus \$35 million, so that incremental \$15 million, is that expected to come in 2025? Or will we now see more savings now filter through in 2024 as well?

Jeremiah R. Bickham

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

A

The full \$50 million won't show up until 2025, but relative to the prior estimate of \$35 million of saves, there will be more flowing through next year and that will be fully represented in our margin guide for 2024 that we release in Q1.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Okay. And then, Pat, you were talking about a robust M&A pipeline. I believe you said tuck-ins as well as larger acquisitions. What do you guys define, I guess, as larger deals? And, have you seen any change just in multiples on potential transactions, either tuck-ins or larger deals over the course of the past year?

Patrick G. Ryan

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

A

I would say that tuck-ins are obvious – the larger deals would be of \$400 million. You'll recall All Risks was quite a bit higher than that. That would be our largest deal to-date. We work on these transactions, particularly the larger

ones over an extended period of time. And so, it's difficult to know if they do material – if they will materialize because of the length of time that it takes to bring these in. And so, we just can't time those any accurate way.

But in terms of the valuations of these, we, as you know, look to buy good, great companies. We're not a bottom fisher. We're not looking to buy projects. We, therefore, expect to pay a fair multiple. And so on good and great companies, multiples are still pretty consistent from what they've been. There could be some tailing off if there is a little lesser quality. But be assured that as we're looking very selectively on who we will bring into the Ryan Specialty family. They've got to be a really good company and they have to have the potential that we can make them better and we can make great companies even better. So, that's how we look at it.

Elyse Greenspan

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Our next question comes from the line of Mike Zaremski with BMO Capital Markets. Please proceed with your question.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Hey. Good afternoon. First question on M&A because you guys have stressed a lot, especially in your prepared remarks about kind of expanding your TAM and addressable market, alternative risk and benefits. Just curious like is there a way you can express how much larger your TAM is to give us a better flavor of whether this net cash you're keeping in the balance sheet really can be maybe fully deployed. Is that the goal that maybe all your free cash flow plus some of your net cash could over the next year could be deployed into both the markets you're in plus this expanded TAM or is this just a small expanded TAM?

Patrick G. Ryan

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

A

Well, we're always looking to expand TAM in this larger way as is practical and possible. But to answer directly your question about all of our dry powder, we'd be delighted to invest all of that and more. We keep working on these kinds of deals. We've had I think a quite good 2023 in terms of adding to our total addressable market. We believe that it's been an active year for us. It's been a very successful M&A year. There's time left in the year and so we're looking forward to continuing to deploy that dry powder and we have a balance sheet that can accept within our guidelines of debt ratios, a considerable more debt. So, yeah, we're ambitious in what we're looking for.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Okay. Maybe switching gears to some of the excellent revenue growth and binding authorities and underwriting management, really saw an acceleration of revenue growth there. Could you offer any more color or flavor of what's driving that M&A versus organic and just whether you're operating kind of at a – if there's some tailwinds there we should be thinking about.

Timothy W. Turner

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

A

Yes. We continue to grow and expand as we have, but it's accelerated and it's driven mostly in our binding authorities and our MGU strategy in areas like cat property. As the wind, the wildfire of the convective storm and

the flood, affecting so many different businesses across the country in different geographies. So we've capitalized on that. The flow of business into the channel coming into binding and into the [ph] MGA (00:26:25) side of the business is really part of the strategy. If you know the way we've arranged our MGUs, our binding authorities behind our brokerage horsepower in the practice group verticals led by cat property but also long tail, high hazard casualty business that's working out very well for us. So that's part of it.

I'll let Miles respond even more specifically on the MGU side.

Miles Wuller

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

A

No, certainly, I appreciate the question. So look, just again, rate, definitely opportunity is certainly up launching incremental products. We've successfully launched our international renewable facility, excess casualties expanded, trucking is expanded, incremental capital and extremely key products right now, property treaty reinsurance. The inorganic element that we are quite proud of has grown and that's our profit commissions. So again, this is reflective of our profit generated to the carriers. Some of these measurements are actually might be from three or four years ago. So keeping mind, we're earnings these from the soft market years and there, we're starting to collect them today, so we're quite proud of that in organic contribution to our growth.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Yeah. Thank you.

Operator: Our next question comes from the line of Rob Cox with Goldman Sachs. Please proceed with your question.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Hey, thanks. Hey. So, I think expectations in the second quarter were for double-digit organic growth in both property and casualty lines of business in the second half of 2023. So, I'm curious if that materialize in the quarter and how you see growth developing between these two classes of business as we head into 2024?

Timothy W. Turner

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

A

Well, clearly cat property has been the leading driver into the channel. But right behind it is long-tail casualty business, as I mentioned. And the real high hazard casualty business led by transportation, consumer product liability, habitational real estate, again, that's a property and a casualty loss leader in the reinsurance world. That's expanding, those classes of business and some others led by public entity, some of the sports and entertainment classes, higher education, large venue risks really continuing to grow and expand in the non-admitted property and casualty channel. Miles?

Miles Wuller

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

A

Yeah, absolutely. Thank you. So, look so rates and terms remain very firm for property, but compounding that is our [ph] add bats (00:29:23) are increasingly, so even non-wind habitational, we've had the benefit of our results and risk management tools have allowed us to continue to track capacity when others are pulling back. And now

we're meeting needs that others are forced to pull back from. So we've seen that in the last quarter and continuing into next year. So we think we're well positioned.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Appreciate that. And, on the property comments, I mean, I think the comments here and in the press release for that property pricing and submission flow are the drivers of growth despite a lower [ph] weight into (00:30:08) cat in the quarter. I think some investors hold the view that this growth is somewhat temporary in nature and might eventually create a difficult headwind for growth. So I'm curious if you could comment on that notion at all and perhaps the sustainability of the property flow into the E&S market in 2024.

Timothy W. Turner

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

A

We tend to disagree with that and really we follow the global warming and the impacts of all of that and it's really more difficult than ever for carriers to be profitable in cat, but it's much more than just coastal wind. It's affecting every geography in the United States today. And it's wildfire, it's convective storm, it's flood. It's driving much more business than just the wind in the wind [ph] buying (00:30:59) season. So we see it having a positive impact on all four quarters and the demand for our products, solutions and services to continue to increase. We see no let-up in that.

Miles Wuller

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

A

And just only [ph] class (00:31:15) I'd add is even course of construction has remained extremely robust in both submission count and revenue contribution and we are obviously conscious of rising rate environment and the impact of both buyers and builders. But the reality is there's a major structural shortfall in available housing units in the US that we continue to meet through [ph] UNS (00:31:36) products.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Awesome. Thanks for that. And maybe just lastly for me, I think there's been some speculation out there that some larger brokers can enter the wholesale space, but it feels like it may not make the most sense for them to compete where you do. So curious if you have any views on the impact to Ryan, should a larger broker enter the wholesale space in some form?

Patrick G. Ryan

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

A

Sure. Well, I'll start out by saying that the first time you met us, we talked about the value of being independent. Independent being defined as not competing with our clients. We have grown, we've prospered for multiple reasons, one of which is that we're independent. We don't compete with our clients. I think that larger brokers have studied this. I know for a fact [ph] that (00:32:34) you probably do as well. They haven't made the decision to go in. But I think a lot of it is around the issue of [ph] were the right (00:32:43) owner for a wholesaler.

And we believe passionately and independence is a real differentiator. So we don't sit around wondering and worrying that they're going to come in. If they come in, they have to compete. There's a very tough competition. Remember this, all the brokers business as we believe that they passionately want to do what's best for their client. And what's best for their client in our minds is the great talent pool that we have that are so differentiating. So we have several clients who own their own wholesaler, but they bring us the tough hazard and high hazard

risks. They bring us the risks that we are uniquely qualified to handle because of our industry or product expertise. So if you want to really survey this, just talk to retailers about who are the go to places to go on really hard risk and you're going to hear Ryan Specialty, RT mentioned very often. So we're very proud and pleased at the position we're in. And if more competition comes in, we still think that they need us and they use us when they need us. And we understand that. So we keep building their need for us. That's a big part of our strategy.

Robert Cox

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Appreciate the color.

Operator: Our next question comes from the line of Brian Meredith with UBS. Please proceed with your question.

Brian Meredith

Analyst, UBS Securities LLC

Q

Yeah, thanks. A couple of them here. Hey, Pat, I'm just curious, there's a potential very large wholesaler that's going to get sold to a private equity shop. Does that create any opportunities for you? Do you ever see like teams fall out after something like that happens with the relationship there with the big bank potentially call some business to shake out?

Patrick G. Ryan

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

A

Well, I've got to be very careful answering this question. Yeah. First of all, we don't have movement out of our company because, you know, we retain our talent. Some people do have movement out of the company, their company and that's kind of a cultural thing. That's a strategic issue. I'd rather not comment on what might happen to any individual company. That's not something we do talk about competitors or clients, for that matter. So if [ph] you'll pardon (00:35:27) by not commenting on that, I'll just say that in the brokerage business, and you've observed this across brokerage space. There's a lot of mobility. There's a lot of mobility. Unfortunately, we have a culture that has allowed us to maintain our talent. Fortunately, we have a platform that allows the people who join us to get significant productivity increases. So people who come from another firm almost always vast, vast majority of the time increase their productivity.

When we make acquisitions like Socius, they're already increasing their productivity. They've only been with us a few months. So it's the culture, it's the trading relationships we have with capital providers. It's the trading relationships of trust and reliability that we have with our retail brokers. They know that we are passionate about serving them well and helping them serve their clients well, partnering on their behalf. So talent wins in this business. Talent wins in this business and that's why we're winning.

Brian Meredith

Analyst, UBS Securities LLC

Q

Excellent. Appreciate that. And then a second question, just curious transactional type business, are you seeing any pick up there, any green shoots kind of what's the view there?

Miles Wuller

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

A

Well global M&A transactions volumes remain under pressure. I mean, certainly in light of higher interest rates and macro uncertainty, we are seeing incremental opportunities. We've been doing our best to offset as much of that pressure through geographic expansion and product expansion, including the launch of our first office in Singapore. Behind this so, there's two substantial losses in the industry totaling almost – speculated to total almost \$1.4 billion. So therefore, despite lower deal volumes, we remain very optimistic on rate going into next year.

Brian Meredith*Analyst, UBS Securities LLC*

Q

Great. Thank you.

Operator: And our next question comes from the line of Meyer Shields from KBW. Please proceed with your question.

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

Q

Great. Thanks so much and good evening all. I think this is a question for Jeremiah. When you provide guidance going forward, what is the assumption for supplemental and contingent commissions embedded in that, not numerically but conceptually?

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

A

Good question, Meyer. Supplemental and contingent commissions are not part of the organic core calculation, so they're not contemplated in organic revenue guidance. But our forecast, of course, does contemplate them on the margin guidance.

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

Q

Okay, perfect. That's helpful. A second broader question and I know we've touched on this, but I'm trying to get a sense as to the – maybe acceleration of rate increases or the acceleration of business moving to the E&S market on the casualty side, as social inflation persists or accelerates, [ph] have you continue to (00:38:54) see any inflection point on either of those?

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

A

We see a steady increase in flow in the high hazard aspects of casualty, Meyer. I gave a few examples earlier, but transportation may be the number one loss leader in the reinsurance world, is being dumped and shred by almost every standard company that's pouring into the channel. And that's every aspect of transportation, from long haul trucking, delivery, to shared economy. In small commercial fleets, we're seeing and we were prepared for it. We made the Crouse acquisition for that reason. We've built up our binding authorities in our MGUs and transportation. And then habitational, maybe the second largest leading loss leader in the reinsurance world, doing a lot of damage in the standard market. We see that increasing in flow and the rates continue to rise even in the non-admitted marketplace. Any type of venue business where large crowds gather, unfortunately, whether it's university stadiums, large sports venues, we see that pouring in.

And then one of our traditional long tail, high hazard classes of business, consumer product liability. We see a tremendous amount of that pouring into the channel, lots of demand for our solutions there. So it's really the loss leaders and the high hazard niches within the casualty segment.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Thank you very much.

Q

Operator: Our next question comes from the line of Michael Ward with Citi. Please proceed with your question.

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Thanks, guys. I think the – so on the margins, I think year-to-date margins are like a little over 30% and the guide is for 29.5% to 30%. So I know it's not that big of a difference, but just wondering what you're expecting to drive the lower margin in 4Q. Is it simply hiring?

Q

Jeremiah R. Bickham

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

It's hiring continued investments in the business that we're doing perpetually and there is still a little bit of a lingering effect of the hiring we made in 2022 that will have an impact in Q4. It's getting less as time goes on, but there's still an impact in Q4 from that.

A

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you. And then the three the benefits businesses that you've acquired, just wondering sort of how they fit together or complement each other there. I think they're relatively smaller. So curious how the integration effort differs from your wholesale P&C deals?

Q

Patrick G. Ryan

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

Great question. You're right, they do differ but they were very deliberately targeted. The first two, ACE and Point6 are basically distributors, quite effective distributors. AccuRisk is, in fact, a managing general underwriter that specializes in medical stop loss, but has an really excellent integrated health plan, which is a major part of our strategy. They have a terrific management team. A very experienced, outstanding management team. So that helps tie those three together.

A

But AccuRisk also has skills that we believe are going to be important to the distribution and building of the entire plan, which is that they've got an ability to manage group captives in addition to the integrated health plan. And we believe the funding of self-insured plans often are going to migrate into group captives.

Also, we believe that there is a really strong need by retailers generally, maybe not the top 2 or 3 or 4, 5, but they need help. That's why we've gone into it to provide these services to our clients. So, what really runs through the top 100 I've to say the top [ph] pick 5 (00:43:36) need help in executing on these opportunities. And so, we feel that this foundation of these three now really gives us a product to take to market that will solve for the needs of these retail brokers. So, this was a step-by-step process, more to come. But we really believe that together now, we have close to \$400 million of medical stop loss premium.

And as we've said in the past, self-insurance is migrating quickly, different segments of the commercial market. Many smaller firms in 100 to 200 and even sometimes smaller than that migrating into self-insurance. And so the ability to help them provide medical stop loss and then to get them an integrated health plan to supplement that has been our goal. And then ultimately, as we've said in the past, we believe that the funding often as we go in the future here, is going to be through group captive funding mechanisms. And so, AccuRisk brings us that as well.

Michael Augustus Ward

Analyst, Citigroup Global Markets, Inc.

Q

Thank you so much.

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

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Thank you. I'm wondering how has business mix by product lines changed in the third quarter of 2023 versus a third quarter 2022 that might have played into your strong organic revenue growth of 14.7% this quarter?

Patrick G. Ryan

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

A

I don't think that's a factor as much as the momentum. The momentum is strong.

Jeremiah R. Bickham

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

A

Well, yeah and Tracy and if you'll recall Q3 of last year is when we started a rapid deceleration in public D&O. Public D&O is still a headwind for us, but its impact is less compared to a year ago.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay. So that public D&O hasn't fully cycled out yet.

Jeremiah R. Bickham

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

A

Well, we've been through 12 months of pain on it but rates keep going down. It's just the impact in Q3 of 2023 was lesser of an impact than Q3 of 2022.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Got it.

Jeremiah R. Bickham

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

A

Just as one example.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Also, want to touch upon your underwriting management. You mentioned the profit commissions. I'm just wondering, could that work the other way? Like, let's say, do you have to pay a claw-back if the casualty loss ratios are worse than whatever target you mutually set up with the carrier?

Miles Wuller

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

A

So I appreciate the question, but I want to emphasize we only recognize the profit commissions when they are both collected and fully earned. We never accrue anything that could be revoked. There's no claw-back in any of these.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay. So then there'll just be no profit commission if you didn't hit the loss ratios over time.

Miles Wuller

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

A

Exactly. A miss would result in zero.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Okay.

Patrick G. Ryan

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

A

We only recognize it when it's earned and never open a claw-back.

Tracy Benguigui

Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

Operator: And it looks like we have reached the end of our question-and-answer session. Therefore, I will turn the call back to Pat Ryan for any closing comments.

Patrick G. Ryan

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

Well, it was very [indiscernible] (00:47:24) discussion. We're very pleased with how well our team has performed through the first nine months. Very proud of the performance. We're very thankful for your support and interest and your good questions. And we'll be talking to you in another three months, but several of you prior to that, obviously. Have a good evening.

Operator: And this concludes today's conference call. You may now disconnect your lines. Thank you for your participation.

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