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Ryan Specialty Holdings, Inc. (RYAN)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

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

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

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

OTHER PARTICIPANTS

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Michael Zaremski
Analyst, BMO Capital Markets Corp.

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

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Bill Carcache
Analyst, Wolfe Research LLC

Michael Augustus Ward
Analyst, Citigroup Global Markets, Inc.

Ryan Tunis
Analyst, Autonomous Research US LP

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for joining us today for Ryan Specialty Holdings Fourth Quarter and Full Year 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 at 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 of 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. Mr. Ryan, please go ahead, sir.

Patrick G. Ryan

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

Good afternoon and thank you for joining us to discuss our fourth quarter results. With me on today's call is our President, Tim Turner; our CFO, Jeremiah Bickham; and our CEO of Underwriting Managers, Miles Wuller. Also with us is our Director of Investor Relations, Nick Mezick.

2023 was another outstanding year for Ryan Specialty. Our team continues to excel with their steadfast efforts to deliver top quality service to our clients. Through a combination of industry leading talent and dedication to our clients. We generated another year of strong results while making long-term sustainable investments in our business to fortify our competitive position.

For the full-year, we surpassed revenues of $2 billion, up 20.4% year-over-year, driven by organic growth of 15% on top of the 16.4% in 2022. We also had a meaningful contribution from recent M&A. We grew full-year adjusted EBITDAC 20.7% to $625 million and expanded adjusted EBITDAC margins by 10 basis points to 30.1%. Adjusted earnings per share grew 20% to $1.38.

We also successfully executed on our strategy to add to our total addressable market. Our overall strategy is aligned around serving the evolving and growing needs of our clients in order to provide a dynamic value proposition. For a double-digit organic growth engine and our M&A strategy, we're steadily expanding our total addressable market within specialty insurance, particularly with targeted investments and delegated authority, benefits, alternative risks, as well as deepening our considerable moat by enhancing our scale, scope and intellectual capital. 2023 marked our second best year for M&A only top – in 2021, we acquired all risks.

We successfully completed and announced several acquisitions with annual historic revenue totaling in excess of $140 million. Adding and integrating new capabilities to each of our three specialties. Driven underwriting services broaden our geographic scope and capabilities and our binding authority and brokerage specialties. Our Socius Insurance Services deepened our scale in our key urban centers and added high quality talent to our professional lines, cyber liability and property teams.

ACE, Point6, and AccuRisk provided foundational capabilities for our employee benefits, distribution and underwriting platform and are rapidly developing new products and service offerings to help our clients with integrated health solutions. In late December, we signed a definitive agreement to acquire Castel Underwriting Agencies, which is anticipated to close in the first half of this year.

We expect the Castel team to add approximately $44 million of annual revenue. Castel adds top talent and differentiated intellectual capital to 13 unique MGUs and has an excellent track record of delivering strong underwriting profits to its capital providers. Our geographic focus in the UK and Europe will significantly expand our international footprint and we expect our management team and operations to be a catalyst for new delegated underwriting authority start-ups and accelerated international expansion.

Further, we develop new proprietary products and capabilities in underwriting management with multiple transportation facilities and large [indiscernible] (05:44) high net worth MGU offering coastal wind and wildfire coverage to a highly dislocated homeowner's insurance market. In addition, several of our MGUs have expanded geographically in the UK, Canada and Singapore. Growing our global footprint and expanding our total addressable market.

In particular, we're excited about PERse International, our wind and solar property MGU with the recent launch in the UK. Stepping back, our delegated authority specialties are well-positioned to execute on both organic and inorganic opportunities. Our offering to carriers is stronger than ever, built through investment in top talent and a heavily resourced platform which includes actuarial and IT support, as well as broad-based distribution.

Our market position is further strengthened by our ability to retain our talent through our culture of empowerment, innovation, and client centricity. We share a likeminded view of risk and partnership with our carriers, as demonstrated by our excellent track record of underwriting results. We're confident that our investment in people and the platform will help ensure our ability to sustainably grow our value proposition over the longer term and perform well through economic cycles.

Turning to talent. We made strategic investments in talent in 2023 to further strengthen our capabilities in both current and developing lines of business on the back of onboarding, our largest production class in history in 2022. Collectively, these investments in talent are well on track to meaningfully contribute to our future performance. As we've noted previously, they are a key part of our proven winning formula to maintain and strengthen our long-term growth prospects.

We were pleased to finish the year once again with industry leading producer retention. While we have been successful at onboarding key talent, it's equally important to maintain a winning, empowering culture that ensures our top producers remain at our firm. We continue to succeed on that front. It is both the exceptional quality and quantity of talent that distinguishes Ryan Specialty from the rest of the industry.

We remain dedicated to recruiting, training and developing large teams of talent from college hires to experienced brokers and underwriters. As a result of our efforts, we accelerate the learning curve of these individuals, which helps them compete at the highest level. Our clients consistently emphasize our differentiated talent and ensures they can trust us to solve their most challenging problems.

Our commitment to onboarding and retaining the best and most innovative talent. And our emphasis on delivering value for our clients has been vital to our mission since our founding. This is why we continue to generate industry leading organic growth and why we believe we can successfully sustain these levels of growth over the long term.

Turning to capital allocation, M&A remains our top priority and we enter the year with significant momentum. We're cultivating a wealth of opportunities and as market conditions are improving, we have an ambitious M&A outlook for 2024. We continue to see substantial M&A opportunities that we expect will bolster our organic growth engine. Our M&A pipeline remains robust and includes both tuck-ins and potential large deals. As we've consistently noted, we will only move forward with all of our criteria for M&A are met, each acquisition must be a strong cultural fit, strategic and accretive. Additionally, given our broad financial flexibility, we are pleased to initiate a quarterly dividend program to return capital and create additional value for our shareholders.

A decision by our board to initiate the cash dividend program reflects confidence in our ability to continue to drive sustainable, profitable growth, generate strong cash flow over the long term and execute on a robust M&A program. It's also a testament of our ability to be excellent stewards of capital for our investors. As we believe we can both seamlessly execute on our robust M&A pipeline for years to come and distribute dividends to our shareholders.

We remain firmly committed to our successful long-term strategy. One, organically investing in our business to support sustainable and profitable growth. Two, executing on our disciplined M&A strategy with high quality acquisitions. And three, maintaining our strong balance sheet while returning excess cash, all of which create value for our shareholders.

As we progress through 2024, there are four things you can continue to expect from Ryan Specialty. First, we expect to generate another year of double-digit organic growth driven by secular growth factors and the strategies we are pursuing. Secular growth drivers like retail brokers becoming larger through solid organic growth and ongoing industry consolidation. Retail brokers pursuing panel consolidation for both overmarket wholesale and delegated authority in order to have fewer, more sophisticated counterparties with the necessary scale to meet their needs.

We believe that we're one of very few specialty insurance firms that meet those criteria. The world continue to increase in risk and complexity. This is driving more risks and new exposures into the E&S marketplace, which offers significantly more freedom of rate and form, and therefore able to provide solutions that otherwise are not available. We believe the E&S market will keep growing and consistently outpace growth in the admitted market overshadowing any cyclical shifts in certain lines with respect to submission, flow and pricing. This is further aided by changes in distribution trends with a growing number of wholesale-only E&S carriers in the marketplace.

Adding to these secular growth drivers is our unique competitive position and high growth businesses. The expansion of our total addressable market and our ability to innovate with new product development, all of which serve to bolster our organic growth engine. We remain confident that these ongoing trends are sustainable and will continue to support our growth for the foreseeable future.

Second, we will continue to grow through M&A. As mentioned earlier, we are steadily expanding our total addressable market within specialty insurance, including in delegated authority, alternative risks, benefits and deepening our considerable moat by enhancing our scale, scope and intellectual capital. We will complete the integration of our 2023 acquisitions and onboard the great team from Castel. Further, we will help these firms grow on our platform through our broad distribution network, access to our proprietary products and our deep carrier relationships.

Third, we will continue to thoughtfully invest in our business. We expect another year of strategic hiring of top industry talent across our specialties, and we'll make additional investments in our systems and operations to ensure we remain at the forefront of the industry.

Lastly, we will continue to execute on our efficiency initiatives. Notably, we will execute on our ACCELERATE 2025 program driving continued growth and innovation, delivering sustainable productivity improvements over the long term, and accelerating our margin improvement.

As a reminder, we expect to generate annual savings of approximately $50 million in 2025 with some of the savings to be realized in 2024. With our flexible and differentiated business model, unparalleled expertize, innovation and work ethic that our clients and trading partners value, we are well-positioned for another strong year and 2024.

In summary, I remain incredibly proud of our entire team for delivering another year of outstanding results and 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; Chairman & Chief Executive Officer-Ryan Turner Specialty, Ryan Specialty Holdings, Inc.

Thank you very much, Pat. The fourth quarter capped off an excellent 2023 for Ryan Specialty as we generated another quarter of double-digit growth across all our specialties. Turning to the market. Ongoing industry trends persist or accelerating notably and increasingly complex climate and legal environment marked by nuclear verdicts, accelerating social inflation, rising uncertainty regarding reserve adequacy and a pullback in risk appetite from the admitted market. These trends are driving more risks into the E&S marketplace, which is a better – which is better able to handle a more uncertain environment as it offers significantly more freedom of rate and form and the ability for insurers and underwriters to adjust more quickly.

As a result, the E&S market is seeing a consistent flow of risks as it is able to provide critical solutions that would otherwise not be available. This continues to create fantastic opportunities for our specialized and industry leading teams to provide solutions on behalf of our clients.

Diving into our specialties, our wholesale brokerage specialty generated another quarter of strong growth. In property, elevated loss activity, including $50 billion of insured losses from severe conductive storms, higher reinsurance costs, and retentions of risk persist and inflation and ongoing focus on insurance to value make for a challenging market.

These factors are continuing to drive flow of new business into the E&S market. We continue to see the E&S market respond well, yet with continued discipline and tighter limit management, especially around coastal property, wildfire and flood along with increased concern of earthquake risk. Given heightened frequency and severity of property losses, particularly in coastal areas and more recently in the mid-West, we believe risks will remain in the E&S market. This will drive recurring opportunities for talented experts to deliver critical solutions to our trading partners and placing these complex risks.

We believe property should continue to be a strong driver of growth for Ryan Specialty in 2024, driven by sustained flow into the channel and continued yet more stabilizing rate increases. Our casualty practice had another strong quarter driven by flow into the E&S market in both primary and excess casualty, particularly for habitational risks, healthcare, transportation, sports and entertainment, and consumer products. Our transportation practice saw another quarter of strong flow, difficult loss trends driven by both economic and severe social inflation are driving carrier need for continued rate increases. A pullback in underwriter appetite and market exits.

These casualty classes are experiencing higher loss trends driven by economic and social inflation, reserving issues due to the long tail nature and latency in claims plus higher reinsurance costs. With our world-class technical expertise and deep bench, we are perfectly positioned to execute and deliver value for our clients, particularly in a more unpredictable market. We are optimistic that casualty will be a strong contributor to our 2024 performance.

Overall, it was a great year for our wholesale brokerage specialty. The team remains committed to delivering innovative strategies and products to meet the ever-changing needs of the marketplace for our clients. And we are well-positioned to generate consistent profitable growth.

Now, turning to our delegated authority specialties, which include both binding and underwriting management. Our binding authority specialty had another excellent quarter driven by key contributions from our high caliber talent and new proprietary products, which make for a seamless experience for our clients on small but tough to place commercial P&C risks.

We continue to see the consolidation of panels and binding authority as a long-term growth opportunity, and we remain well-positioned to capitalize on that opportunity. Our underwriting management specialty performed very well in the quarter, led by property and casualty and our reinsurance MGU, Ryan Re. We are proud to deliver another year of increasing underwriting profitability for our carrier trading partners despite multiple adverse market events.

We also look forward to the addition of Castel, pending regulatory approval in the UK, which will add top decile talent, expand our international footprint, make us stronger in markets such as the UK and Europe and position us well to accelerate our international expansion. As Pat mentioned, we made significant progress with respect to our acquisition strategy in 2023. Focused execution on the right transactions will enable us to further grow alongside our clients' evolving needs and ensure our ability to sustainably grow our platform over the long term and perform over economic cycles.

Turning to price. The hard market conditions including firm or accelerating pricing have continued into early 2024, and the majority of our business lines. Exceptions remain in public company, D&O and cyber. As we've noted before, in any cycle, 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 has not meaningfully impacted 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 fourth quarter. Thank you.

Jeremiah R. Bickham

Chief Financial Officer, Ryan Specialty Holdings, Inc.

Thank you, Tim. In Q4, we grew total revenue 22.5% period-over-period to $533 million, fueled by another strong quarter of organic growth at 16.0%. And contributions from M&A, which added over 4 percentage points to our top line. Growth was driven by the ongoing tailwinds in much of the E&S market, strong renewal retention, and our ability to win substantial amounts of new business. Adjusted EBITDAC for the fourth quarter grew 24.6% period-over-period to $159 million and adjusted EBITDAC margin improved 50 basis points to 29.8%, driven by another quarter of strong revenue growth and higher fiduciary investment income, which was partially offset by continued investments in our business. Adjusted EPS grew 29.6% to $0.35 per share.

Our full year 2023 results were excellent. For the year, we grew total revenue 20.4% to $2.1 billion, driven by organic growth of 15% and contributions from M&A, which added 3 percentage points to our top line. We grew full-year adjusted EBITDAC 20.7% to $625 million and expanded adjusted EBITDAC margins by 10 basis points to 30.1%. Adjusted EPS grew 20% to $1.38 per share.

Turning to our ACCELERATE 2025 program, we had approximately $12 million in charges for the quarter and $48 million in charges for the year. We continue to expect cumulative special charges of approximately $90 million under this program and expect annual savings of approximately $50 million in 2025. We expect approximately half of these savings will be realized in 2024.

As Pat noted in his remarks, M&A remains the top priority in terms of allocating capital. That said, as a result of the financial flexibility that our business model provides, the board declared a one-time special cash dividend of $0.23 per share and initiated a regular quarterly dividend of $0.11 per share on our outstanding Class A common stock. Both the special and regular quarterly dividend will be payable on March 27, 2024 to stockholders of record as of the close of business on March 13, 2024. More information on the attribution of the dividend can be found in our earnings release and will also be presented in our Q1 10-Q. As we initiate our dividend and add this new facet of capital management to our arsenal, it is important to note that we will continue to execute on our robust M&A pipeline, maintain our strong balance sheet and stay within our stated leverage corridors.

We remain committed to being good stewards of capital, both through our M&A strategy and our dividend policy in order to deliver long-term sustainable shareholder value. As Pat mentioned, we remain firmly committed to our successful long-term strategy. One, organically investing in our business to support sustainable and profitable growth. Two, executing on our disciplined M&A strategy with high quality acquisitions. And three, maintaining our strong balance sheet while returning excess cash. All of which create value for shareholders.

Looking forward, we will continue making strategic investments 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 forecast, we expect to record GAAP interest expense, which is net of interest income on our operating funds, and includes the recent repricing of our term loan of approximately $120 million in 2024.

As Pat and Tim mentioned, we continue to be excited about our long-term growth opportunities and value proposition. As a result, we are guiding full year 2024 organic revenue growth to be between 12.0% and 13.5%. We believe our broad-based growth will be driven by our exceptional talent, including our outsized investments in 2022, and the benefits of prior year M&A as we lap 12 months of ownership, exactly as Pat has signaled in many of our prior calls. In addition, we are guiding adjusted EBITDAC margin for the full-year 2024 to be between 31.0% and 31.5%. We expect to recognize approximately half of the 50 million in annual run rate savings from ACCELERATE 2025 this year, with the majority of those savings falling to our bottom line. Those savings will be paired with a return to underlying annual margin expansion in our business.

In summary, we are very pleased with our 2023 performance and remain excited for both our near and long-term prospects. Our dynamic and differentiated business model continues to position us well to best serve our clients and to deliver the innovative solutions that our clients have come to expect as a hallmark of Ryan Specialty.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Will now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Elyse Greenspan from Wells Fargo. Your line is now live.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Hi, thanks. Good evening. My first question is on the organic growth outlook, right. You're setting 2024 initially at 12% to 13.5%. If I go back, 12 months ago, you had set this 2023 at 10% to 13%. So, I know that's driven by several factors you outlined on the call, but it feels like you feel better about 2024 than you did at the start of 2023. Would you agree with that statement?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Hi, Elyse. We feel very good not only about where we finished 2023, but also 2024. And we view 12% to 13% as a very healthy amount of growth. Now, when you're comparing it to 2023 and trying to understand if there's a trend, the biggest individual variable that explains the difference is really property. So, we expect a really strong contribution from our property portfolio this year as well as our casualty portfolio. However, we're not counting on the same compounding premium rate increases that we saw last year in property this year. But as I said, 12% to 13% still very healthy. And then when you pair that with up to 150 basis points of margin improvement and the contributions from last year's M&A and potential new M&A this year, I think it's easy to see why we're very excited about our overall growth prospects in 2024.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then you guys were talking about the Castel deal and you said that it helps with international expansion. You just give a sense – I mean, that brings on $44 million, but how do we think about just the international opportunity that you guys see and over what time period could that play out?

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

A

Well, we look at the international market as very much being ripe for delegated authority expansion. A lot of that comes from the consolidation of carriers over the last number of years, but also a need for innovation. In the European market, we bring innovation. So we believe that planting the flag in Europe, as we add to our already existing good business, the Castel talent that look at quick materialization of productivity improvements and bringing innovative products to various European countries.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then how big is Ryan Re today?

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

A

How big are they? Well, they're big...

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Yeah, yeah.

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

A

...but we don't break it out.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yeah. We don't disclose revenue or profitability at the individual MGU level. But it's a great example of innovation, a TAM expanding de novo, a great partnership that we have with Nationwide and a really rapidly growing part of our MGU portfolio.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. Next question is coming from Mike Zaremski from BMO Capital Markets. Your line is now live.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Hey, great. First question, on contingents and subs for the year, I don't know – I don't think I have the 4Q number, but it looks like for the year, it's running a much higher percentage of revenues than last year. Any thoughts, any guidance you want to offer us or just how to think about contingents and subs whether this is kind of a 2023 was a normal year better than normal year or maybe the lines you're growing in have a larger contribution from contingents and subs? Thanks.

A

Look, we appreciate the question. So, I think we perhaps highlighted in our last quarter that we've seen an emergence of profit commissions from even back years in the soft market parts of the cycle, which are a great compliment to the results we've driven. So, we've seen results from past years. We believe we've delivered a lot of profit to carriers over the last several years, which will continue to emerge as profit commissions over the coming years. So, that is part of our go-forward planning process.

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

A

Of course, those are not in added growth numbers.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Got it.

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

A

We don't put contingent commissions, right.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Okay. Maybe pivoting back to the organic growth guidance and you've given a lot of good breadcrumbs and just insights on the call so far. But if I just look at – just curious, if I look at the guidance range, it's tighter than you've given in previous years, which seems to kind of point to you have increased conviction over or just more predictability of your growth rate this year versus in previous years. Anything more you'd want to add about why you have more conviction other than you made a number of comments and you talked about property being a variable to that, you're counting on less this year.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

I think the simplest way to think about it, Mike, is just there's less variability, less material variability within the individual variables. So, last year, for example, you had property, which it was hard to tell at the beginning of the year where it was going to end up, how long it was going to last, how much rate there was going to be. You had various headwinds across our professional lines and transaction liability. There's still a lot of moving pieces and a lot of things in play, but there's – it's more of a aggregation of a bunch of call it normal variables that make us feel comfortable guiding towards a tighter range. That doesn't mean that that's what we'll go out with every year, but this year it felt and all the scenarios that we ran and our bottom-up budgeting process, we got comfortable with 150 basis point range.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Okay. And just lastly, it sounds like still optimistic on M&A. Could the pace of M&A in 2024 be similar to that of the pace in 2023?

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

A

Well, as you know, it takes a long time to cultivate a lot of these great companies that we're able to buy. I would comment that in terms of people that are ready or getting ready to sell, there's been an uptick. So, it's a matter of determining when they are available and can we get together on reasonable terms. As we said, we have a very robust pipeline. We had quite a good year in M&A last year. We can't predict when they fall. It's got so many variable, but just rest assured that there's more opportunity in 2024 than there was – entering 2024 than there was entering 2023.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Thank you.

Operator: Thank you. Next question is coming from Meyer Shields from KBW. Your line is now live.

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

Great. Thanks so much. I had one question sort of stemming from the Castel deal, and I don't want to extrapolate too much for one point, but should we think of there being behind the scenes, mounting interest in underwriters divesting? And do you?

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

Just to make sure I heard the question you said, are there -- should we assume that there's mounting interest in carriers divesting MGUs?

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

Yes. Or I don't know whether this is just a one-off deal. Obviously, it takes time for deals to close, but I don't know if there's a broader theme that we should be thinking about in the context of potential M&A.

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

Well, this is just our opinion. Carriers as well as banks seeing that, they need tangible net worth in their businesses. And they've had banks have had strategies on brokers with lots of intangible value. They have certainly the carriers in that same situation. There is, I don't know if you can call it a trend, but let's say that, in fact, more carriers are realizing that getting the tangible book is superior to managing the delegated authority opportunity. I don't want to call it a trend, but it certainly is happening now.

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

No, that's very helpful. Thank you. The second question is broadly speaking with regard to recruiting, I was hoping for an update on what we could think of as sort of the war for talent or just the battle for talent, whether pricing for good brokers talent is intensifying or abating compared to 6 or 12 months ago?

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

Hi, Meyer. I would certainly say this from day one and through our history, we've been very, very focused on attracting the highest caliber, decile talent in broking and underwriting, and we've never let up. It's been a big part of our success. It's a limited supply of high caliber underwriters and brokers. We know who they are and we've been very successful at bringing them in and attracting them to Ryan Specialty. We'll continue to do that. It's been a big part of our success across the country, and the environment for recruiting has never been better.

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

Okay, perfect. And if I can throw in one last one, I know that public company D&O remains something of a headwind. Is that changing at all? Are the headwinds fading?

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

The headwinds continue, but I think we're through the pain phase. The books have rolled over and converted and we're back to being in a pretty strong position across all [ph] pro-exec lines (38:52), including D&O and E&O. Public D&O, it remains a challenge. It's a softer part of [ph] pro-exec (39:01) today. But I think the actual movement of the business and the transition of that business, we've been through most of it and I expect that line to really stabilize and continue to grow. There's firming issues in [ph] pro-exec (39:18) like healthcare, social and human services. We're getting a real big tailwind in those classes.

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

Q

Okay. Excellent. Thank you so much for all the answers.

Operator: Thank you. Next question is from Rob Cox from Goldman Sachs. Your line is now live.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Hey, thanks. Hey. So, one of the areas that's been particularly strong relative to some of the public peers we look at is binding authority. And I know you guys don't exactly give the organic there and the business mix is a bit different from those peers but maybe you could elaborate on what's been the driver of what's been exceptional growth there?

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

A

Sure, Rob. Small commercial not to be misconstrued as easy, those are tough property and casualty accounts, they're just small. We've been keen on building this binding authority up underneath the RT chassis, if you will. So, in all the different offices, our hub and spoke approach to the business, the brokerage platforms of RT have these burgeoning binding authority platforms, and they're gaining momentum. The customer base who trust us with their brokerage property and casualty business is moving more binding authority business to us. RFPs for the consolidation of binding authority business continue to be a strong tailwind for us and our electronic trading platform, our technology approach to the business is working extremely well, and we're getting a lot more momentum in the speed and the efficiency at which we can grow small commercial. So, we're very, very bullish on the long runway ahead in growing our binding authority business.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. And as a follow-up on the margin guide, so the $25 million in 2024 seems like it'll add 100 basis points, of the 100 basis points to 150 basis points expansion or so that you guys have identified. Could you help us think about the puts and takes of the margin excluding the restructuring impact?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Yes. So, Rob, you're absolutely right. The, call it, 25 round savings from ACCELERATE that's flowing through this year does do most of the heavy lifting to get us into the beginning of our range, the 31%. But remember, that's being paired with a resuming – a return to underlying annual scaling. And where we ultimately shake out will depend on how organic growth materializes for the year, what other growth investments arise and then also [indiscernible] (42:16) does. So, right now, our plan contemplates overcoming a headwind in fiduciary investment income. But if the Fed cuts deeper and faster, that will obviously have an impact. And then alternatively, if rates hold throughout the year, that could be a tailwind for margin.

But big picture, though – I mean, the progress of ACCELERATE 2025 and the impact that it's having on our margin this year, the impact that it'll have on our margin in future years and the fact that we're resuming annual underlying scaling is incredibly exciting for us. And then pairing that big jump in earnings power with our exceptional top line growth is even more exciting, and we're far from done on both of those fronts.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. That's helpful.

Operator: Thank you. Next question is coming from Bill Carcache from Wolfe Research. Your line is now live.

Bill Carcache
Analyst, Wolfe Research LLC

Q

Thank you. Good afternoon. Following up on your delegated underwriting authority comments, can you take us inside some of the discussions that you're having with clients regarding your capabilities in an environment where there are significant performance disparity across MGAs and MGUs? How is your performance track record contributing to the discussions? And maybe what's your success rate in competing for the business with top decile talent, seems like it should be quite strong. But any color around sort of the discussions would be extremely helpful.

A

Yeah, look, I appreciate the question. We're definitely proud of our 2023 performance and that the momentum going into 2024. So, strong growth, product expansion and most importantly as you highlight another year of increasing profitability to carriers. So kind of like your industry, our track record in individual product classes is important to attracting new capital, and it's equally important in showing that past performance when it comes to launching new products. So, we've had a lot of success increasing underwriting capital under management last year. Last year we grew premium in products with the greater majority of our top 25 partners. A strategy that I feel we've led the way on that had success continuing into last year was – we're able to achieve several portfolio, wide arrangements where key capital partners are supporting a broad-based selection of our products. We believe the same is possible as we go into 2024. Big picture, we – the penetration of delegated authority is increasing across the marketplace, but it's still early doors and we remain a relatively small percentage of total premium while a lot of these major global carriers and we aspire to perpetuate this performance into 2024.

Bill Carcache
Analyst, Wolfe Research LLC

Q

That's helpful. Thank you. Separately, the risk of E&S business migrating back to the admitted market is very much in focus and I appreciate your comments in the prepared remarks, but are there any tangible examples you could point to or that you would point to as posing [ph] outside (45:25) risk?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Well, the migration of business back into the standard market is very, very modest in most high hazard classes of business and property casualty, it's double-digit growth. The dumping and the shedding continues, especially in classes of business like transportation and healthcare, loss leaders in the reinsurance world, that business continues to grow double-digit in our space. So, we don't really see a lot of migration back into the standard market at all that's measurable. Little bit of business kind of heading back into the London market, but hardly measurable. The London market is – has been a little bit more aggressive, but we use that market as well. But again, nothing measurable that we can see.

Bill Carcache
Analyst, Wolfe Research LLC

Q

Understood. Thank you. And if I may squeeze in one last one. How are expectations of Fed rate cuts influencing your discussions with potential targets? Do you sense a greater inclination to wait in anticipation of selling into a more attractive environment? And just curious whether the discussions are sort of being influenced by – how they're being influenced by the current rate environment?

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

A

Well, I think it's – it depends on the quality of the business that you're targeting. We target very high quality businesses, and people know that they're high quality and they're not anxious to take a haircut on that because of the market conditions. You saw just recently the announcement on Truist Insurance Holdings that's been announced at a pretty high multiple because it's a high quality business. There are businesses that deservedly have earned a lower multiple and not necessarily because they're bad businesses at all. But there could be some disruptions that temporarily lower their performance. And so, there are good companies out there that we could – we believe bring in at lower multiples than the past. But then there's a little bit of productivity improvement, we call it. But we're quite good at that.

So as we look at opportunities out there, likely there are some quite good companies that need a little, let's say, a new home and some productivity help and some distribution help. And we think we can get some quite good, attractive companies at reasonable multiples.

Bill Carcache
Analyst, Wolfe Research LLC

Q

That's very helpful, Pat. Thanks everyone for taking my questions.

Operator: Thank you. [Operator Instructions] Our next question is coming from Mike Ward from Citi. Your line is now live.

Michael Augustus Ward
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, guys. Maybe just following up on Rob's question in NII, how much of a headwind are you embedding? Are you assuming rate cuts?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

We are, we look at the forward curve to set our budgets and it's changed the assumption of I think it was five cuts a month ago, it's three cuts that are embedded in the forward curve now. So, we're taking into account, a range of outcomes and all of the scenarios in our models are a headwind. And like I said, we're very happy that our plan has us overcoming them.

Michael Augustus Ward
Analyst, Citigroup Global Markets, Inc.

Q

Okay, thanks. And then just kind of curious what you're expecting in terms of property rate increases with respect to organic growth guidance? And I guess similar question for casualty.

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Well, we'll start with property. First of all, the flow into the channel continues to be double-digit. So we continue to see a lot of business being moved into the non-admitted market and we're seeing double-digit rate increases on cat property. So whether it's coastal wind, wildfire, flood, convective storm business, predominantly what we see there's double-digit rate increase continuing. Very little rate deceleration, very modest. In casualty, again, double-digit growth flow into the channel, stamping offices, the larger states have validated that once again, that kind of ebbs and flows depending on the the narrow niches of high hazard business that we play in. But your usual strong classes of business like transportation, habitational, large venue risks, higher education, sports and entertainment, healthcare, social and human service business continues to flow into our channel. So, we're very well set up, as you know, with heavy brokerage talent, deep bench and our underwriting platforms that are woven into these practice group verticals. We expect 2024 to be very strong.

Michael Augustus Ward
Analyst, Citigroup Global Markets, Inc.

Q

Awesome. Thank you.

Operator: Thank you. Next question is coming from Ryan Tunis from Autonomous Research. Your line is now live.

Ryan Tunis
Analyst, Autonomous Research US LP

Q

Hey, thanks. I guess just following up on that last question. You said that you are seeing solid rate in property, not much deceleration. But if I recall, a lot of those [indiscernible] (51:34) those property lines renew mid-year. So how much – you guys really have that much visibility on what's going to happen from a pricing standpoint in property in 2024 at this juncture?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

We don't. But what we can see so far is that the rates continue to increase. There's been, again, a very slight, hardly even measurable deceleration on certain classes of business. But again, we're talking specifically about E&S, high hazard cat property and not – middle – certainly not middle market or mainstream property business that does in fact have rate deceleration. So, again, the overall high hazard part of our property continues to be very, very strong.

Ryan Tunis
Analyst, Autonomous Research US LP

Q

And then, I mean, you're still bullish, I guess, on property submissions. Can you just help me understand where incremental submissions come from? So 2022 happened, we had a huge hurricane, [indiscernible] (52:44) just about everything coastal and non-admitted market, I'm not disagreeing that it's going to stay there, but where does the incremental submission flow come from?

Jeremiah R. Bickham
Chief Financial Officer, Ryan Specialty Holdings, Inc.

A

Well, first of all, treaty reinsurance plays a big role here and limited capacity being produced by large risk-bearing companies, whether it's here or Europe or Lloyd's London, shrinking lines much, much smaller net line capacity available for the cat business so requires a higher number of participants to deliver on the limits that are required. So, our non-admitted capacity in even in smaller tranches if needed in a much – there's a much higher demand for that in accomplishing these limits that are needed, we don't see a lot up in that. There's no one putting up big lines and cat property. It's much, much more the other way. So, the new opportunities are really restructuring these towers and requiring, again, that expertise and more carriers to participate to accomplish the goals.

Ryan Tunis
Analyst, Autonomous Research US LP

Q

Got it. I guess just one last one would be contingents of the profit commissions. I'm not sure how that's accounted for, but is there noise that you see there from, I don't know, maybe you got paid for something in casualty [ph] 15 to 19 (54:19) and now it's developing more adversely like is there a clawback mechanism for that or is that not really dynamic?

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

A

So, so Ryan, on this technical accounting side, there is no clawback on anything we book. We only book it when it's fully earned and collected. We want -- we don't want any downside to what you're seeing. I think broadly speaking, there – on average, it takes three or four years on average for a profit commission to be earned, recognized, measured and paid. So as I think I said in the opening, we're pleased to see PCs materialize from some of – the soft market years of four or five years ago. And we're optimistic of our underwriting performance that materialized in PCs in the coming several years. But again, at the heart of your question, there are no clawback and what you're seeing on our books.

Operator: Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

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

Okay. Well, thank you. We appreciate you taking the time to join us today and certainly for your continued support of our firm. And we look forward to updating you on our progress next quarter. Probably we'll be talking to several of you between now and then. Thanks for your interest and support.

Operator: Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.