



## **The Baldwin Group**

### **Second Quarter 2025 Earnings Conference Call**

**05 August 2025**

#### **C O R P O R A T E   P A R T I C I P A N T S**

**Bonnie Bishop**, *Executive Director, Investor Relations*

**Trevor Baldwin**, *Chief Executive Officer*

**Brad Hale**, *Chief Financial Officer*

#### **C O N F E R E N C E   C A L L   P A R T I C I P A N T S**

**Tommy McJoynt**, *KBW*

**Greg Peters**, *Raymond James*

**Andrew Andersen**, *Jefferies*

**Hristian Getsov**, *Wells Fargo*

**Josh Shanker**, *Bank of America*

**Pablo Singzon**, *JPMorgan*

**Charlie Lederer**, *BMO Capital Markets*

## PRESENTATION

### Operator

Ladies and gentlemen, greetings and welcome to The Baldwin Group Second Quarter 2025 Earnings Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star and zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Bonnie Bishop, Executive Director, Investor Relations. Please go ahead.

### Bonnie Bishop

Thank you. Welcome to The Baldwin Group's Second Quarter 2025 Earnings Call. Today's call is being recorded.

Second quarter financial results, supplemental information and Form 10-Q were issued earlier this afternoon and are available on the Company's website at [ir.baldwin.com](http://ir.baldwin.com).

Please note that remarks made today may include forward-looking statements subject to various assumptions, risks and uncertainties. The Company's actual results may differ materially from those contemplated by such statements. For a more detailed discussion, please refer to the note regarding forward-looking statements in the Company's earnings release and our most recent Form 10-Q, both of which are available on the Baldwin website.

During the call today, the company may also discuss certain non-GAAP financial measures. For a more detailed discussion of these non-GAAP financial measures and historical reconciliation to the most closely comparable GAAP measures, please refer to the Company's earnings release and supplemental information, both of which have been posted on the Company's website at [ir.baldwin.com](http://ir.baldwin.com).

I will now turn the call over to Trevor Baldwin, Chief Executive Officer of The Baldwin Group.

### Trevor Baldwin

Good afternoon and thank you for joining us to discuss our second quarter results reported earlier today. I am joined by Brad Hale, Chief Financial Officer, and Bonnie Bishop, Executive Director of Investor Relations.

We generated strong overall results in the second quarter with organic revenue growth of 11%, Adjusted EBITDA growth of 14%, Adjusted EBITDA margin expansion of 60 basis points, and adjusted diluted earnings per share growth of 24%. We paid \$57 million of earn-outs in cash and have now fully extinguished all earn-out liabilities associated with the Partnerships completed during our first five years as a public company.

In Insurance Advisory Solutions, overall organic revenue growth accelerated from the first quarter to 10%, driven by strong new business generation. Sales velocity increased from 14% in the first quarter to 22% in the second quarter, bringing year-to-date sales velocity to 18%. This represents top decile new business performance in our industry with the latest data showing industry median sales velocity of 11.7% and top quartile at 15.7%. The impact of rate and exposure, or renewal premium change, was muted at 1.3%, reflective of the dramatic reduction in large cat-exposed coastal property pricing and continued macro

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uncertainty, partially offset by ongoing rate action in certain litigation exposed casualty lines of business. From where we sit today, we don't anticipate this backdrop to change in the near term, highlighting the importance of our industry leading new business generation capabilities to drive sustainable growth over time.

In our Underwriting, Capacity & Technology Solutions segment, organic revenue growth came in at 21% on top of a very strong 37% in the second quarter of 2024, driven by continued strength in our multifamily portfolio which grew commissions and fees at 14%; strong results in certain segments of our homeowners portfolio—our builder and real estate investor products grew commissions and fees by 25% and 35%, respectively, in the quarter; and Juniper Re, which achieved year-over-year revenue growth of over 100% in the quarter. These more than offset growing headwinds in our E&S homeowners book as we have maintained underwriting discipline amidst increased pricing pressure and competition, a dynamic we do expect to persist over the remainder of the year.

In April, we announced the finalization of the third party-led capitalization of our Builder Reciprocal Insurance Exchange, named BRIE for short, and in July we began the migration of the builder book away from QBE. Additionally, following the transaction we announced with Hippo, we have begun work with the Hippo and Spinnaker teams on a second builder program. Over time, we expect it will materially increase our capture of Westwood's builder business into proprietary MSI programs, which sits at around 30% today. This should unlock a meaningful growth opportunity for our MGA and expand vital insurance capacity for our builder partners and their home buyer customers.

Also in April within the UCTS segment, we completed a strategically important partnership with MultiStrat, a Bermuda-based reinsurance MGA platform focused on managing alternative reinsurance capacity. This partnership adds an important capability to source alternative reinsurance capital for our cedant clients and MGA business on a commissions and fees basis, while delivering a track record of attractive, uncorrelated returns to our capital partners. We are incredibly excited to welcome the MultiStrat team and look forward to the strategic contributions they will make towards fulfilling our Broker of the Future strategy.

In our Mainstreet Insurance Solutions segment, organic revenue growth was flat vs the prior year, driven by two factors. As we've discussed on prior calls, May 1 marked the inception of the reduced commission rates on our builder business with QBE, which flows directly to Westwood and through our MIS P&L. While this will be a headwind for the balance of 2025 and the first half of 2026 to both MIS revenue and margin, the year-over-year impact will normalize starting after the second quarter of 2026. So, what is a one-time head wind for the next 12 months will then become a revenue and margin tail wind for the following 24 months.

Second, after a strong start to the year with record new business in the first quarter from the 2024 annual enrollment period, our Medicare business experienced headwinds in the second quarter as disruption across the managed care landscape, particularly amongst a number of large Medicare Advantage plan providers, resulted in elevated turnover in our renewal book of business. We expect this pressure on our renewal book to persist for the balance of 2025, after which we expect the market to stabilize heading into next year based on announced increased government funding levels. While our Medicare business is a relatively small part of our overall enterprise at \$60 million of annual revenue, it remains well positioned to continue driving profitable growth in 2026 and beyond as we continue to grow our agent base, expand our offerings, and further bolster our technology resources to support agent success.

We remain very bullish on the growth prospects of our MIS business and are particularly excited about the increasing momentum we are seeing across our strategic growth initiatives. Through the second quarter, our mortgage and real estate embedded business has successfully implemented seven new embedded partners, six of which were launched in the second quarter. Additionally, we're excited to announce that in the third quarter we will officially go live as the exclusive embedded insurance provider with a top 20 national mortgage originator. This marks a major milestone for the business and should become a tailwind for MIS organic growth in 2026 and beyond.

Our pipeline of new embedded partners in the mortgage and real estate channel is as strong as we have seen yet, with our implementation backlog already into 2026.

Our growing momentum in the mortgage and real estate channels, market-leading position in the builder channel and access to purpose-built and proprietary insurance products through our MGA increases our confidence in our ability over time to build the leading personal lines distribution platform in the \$500 billion premium U.S. personal lines market, a truly massive opportunity.

On July first, we completed the acquisition of Hippo's homebuilder distribution network. I'd highlight three benefits from this acquisition: First, Westwood acquired eight new homebuilder partners and as a result, now powers the home insurance experience for 20 of the top 25 homebuilders across the country. Second, as I mentioned earlier, MSI entered into both a Program Administrator Agreement and Claims Administration Agreement with Hippo and its affiliates, and is now actively collaborating with those teams to develop a new homebuilder program that will complement our existing BRIE offering and provide additional proprietary capacity for Westwood's builder partners.

Lastly, Hippo and its affiliates, including Spinnaker, will provide incremental fronting and reinsurance capacity in support of MSI's existing and future programs. We look forward to a continued and growing relationship with the entire Hippo team.

In summary, we're pleased with our second quarter results despite the macro uncertainty and insurance market dynamics at play. While we expect we will continue to face a challenging insurance marketplace throughout the balance of the year, we remain focused on prudently managing the business to ensure we deliver on our margin expansion goals for the year and continue to position the business for profitable, double-digit organic growth over time.

We extend our gratitude to our clients for entrusting us to deliver guidance, expert advice, and innovative solutions to navigate ever-evolving risks. Our appreciation also goes to our colleagues for their unwavering dedication and commitment to achieving impactful results for both our clients and our insurance company partners.

With that, I will turn it over to Brad who will detail our financial results.

### **Brad Hale**

Thanks, Trevor, and good afternoon everyone.

For the second quarter, we generated organic revenue growth of 11% and total revenue of \$378.8 million. Looking at the segment level, we generated organic revenue growth of 10% at IAS and 21% at UCTS. Organic revenue growth for our MIS segment was flat for the quarter.

We recorded GAAP net loss for the second quarter of \$5.1 million, or GAAP diluted loss per share of \$0.05. Adjusted net income for the second quarter, which excludes share-based compensation, amortization and other one-time expenses, was \$49.5 million or \$0.42 per fully diluted share. A table reconciling GAAP net income to adjusted net income can be found in our earnings release and our 10-Q filed with the SEC.

Adjusted EBITDA for the second quarter rose 14% to \$85.5 million compared to \$74.9 million in the prior year period. Adjusted EBITDA margin expanded approximately 60 basis points year over year to 22.6% for the quarter, compared to 22.0% in the prior year period.

Adjusted free cash flow for the second quarter was \$9 million, down from \$29 million in Q2 2024. The quarter was impacted by incremental cash interest payments on the senior secured notes for which payment is made semiannually and no corresponding payment was made in Q2 2024. The decrease in free cash flow year-to-date is driven entirely by the timing of collection of accounts receivable, the largest of which is the timing of contingent receipts which we expect will normalize in subsequent quarters.

Net leverage increased slightly to 4.17 times in the quarter as we paid \$57 million of earn-outs in cash, inclusive of amounts reclassified to colleague earn-out incentives, extinguishing the earn-out liabilities associated with our 2021 and 2022 partnerships, in addition to funding \$15 million of surplus notes investment in our reciprocal insurance exchange. Our goal remains to get net leverage at or below 4 times by the end of the year.

As Trevor previewed in his opening remarks, in the face of the current headwinds impacting the insurance marketplace, we are updating our full year guidance. We now forecast full year revenue of \$1.5 billion to \$1.52 billion while maintaining the bottom end of our Adjusted EBITDA range of \$345 million supported by strong efficiency gains across our platform from the immense operating leverage that exists in our business.

For the year, we expect double digit growth in free cash flow from operations, which was \$90 million in 2024 after adjusting for our revised presentation. Overall free cash flow should accelerate over time as growth in certain cash items such as interest expense and capital expenditures slow dramatically relative to expected growth in Adjusted EBITDA.

We are now expecting organic growth in the high single digits for the full year, which reflects four unique drivers that I will expand upon. One, an expectation for negative rate and exposure or renewal premium change in the retail business resulting in a \$15 million to \$20 million headwind to organic revenue growth in IAS from our prior assumptions of flat to a modest tail-wind from RPC; two, continued growth pressure on our E&S home book in MSI from our steadfast commitment to underwriting discipline resulting in an approximately \$5 million reduction to expected commission and fee revenue at UCTS; three, the renewal headwinds we cited in our Medicare book reducing our revenue expectations by \$7 million in that business; and four, a procedural change to the timing of revenue recognition in IAS, which is aligning us with best practices and will add efficiency to our teams but will cause approximately \$10 million of revenue in the second half of '25 to shift into '26. It is important to note that this procedural shift is a headwind to revenue and margin over the next 12 months and a tailwind beginning in Q3 of '26 for the following 12 months.

We expect adjusted diluted EPS to be between \$1.62 and \$1.67 for the full year.

For the third quarter of 2025, we expect revenue of \$355 million to \$365 million and organic revenue growth in the mid single digits. We anticipate Adjusted EBITDA between \$70 million and \$75 million and adjusted diluted EPS of \$0.28 to \$0.31 per share.

As evidenced by our performance in the quarter, we have a business that is uniquely durable and well positioned to perform throughout the various economic and insurance market environments. This is on full display today with our confidence in delivering top of our industry organic growth and double-digit growth in adjusted earnings this year, despite the shift in the insurance rate environment and the idiosyncratic headwinds we've highlighted. The underlying KPIs of our business performance that we watch closely continue to showcase internally controllable outperformance evidenced by our industry leading sales velocity, premium growth and new product launches in the MGA, growing momentum in launching new embedded partners in our mortgage, real estate, and builder channels, and overall increasing efficiency of our expense base.

Our strengthening balance sheet and anticipated growth in free cash flow provides opportunities to capitalize on investments that are going to deliver long-term shareholder value, like the recent Hippo builder network Partnership. We are thoughtfully managing our investments to adjust to this environment and remain committed to building a differentiated business that outgrows the peer set in a profitable way. Importantly, we have growing confidence and remain focused on executing on our internal aspirational goals of \$3 billion of revenue and 30% Adjusted EBITDA margin by 2029, what we refer to as our \$3B30 plan.

We will now take questions. Operator?

**Operator**

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press star and one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star and two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Ladies and gentlemen, we'll wait for a moment while we poll for questions.

Our first question comes from the line of Tommy McJoynt with KBW. Please go ahead.

**Tommy McJoynt**

Hey, good afternoon guys. Thanks for taking our question.

I wanted to double check on the Insurance Advisory Solutions segment in terms of the drivers of what happened in the second quarter around organic growth. It seemed to have come in stronger than we were expecting and I thought perhaps you guys were expecting as well. Could you walk through the drivers to get to that 10% organic growth in that segment?

**Trevor Baldwin**

Yes. Hey Tommy, this is Trevor. Good afternoon.

We were super pleased with the results in IAS in Q2. I'd say there's really two drivers that ultimately caused those results. One was really strong new business. You heard me mention the sales velocity at 22% in the quarter bringing year-to-date sales velocity up to 18% and top decile performance for our industry. And the second I would say is we saw rate and exposure come in slightly higher than we anticipated as a result of some pull-through in accelerated renewal exposures for certain large energy clients that skewed that higher than we were originally anticipating.

If you look at our overall property book, which was pretty heavy from a renewal perspective in the quarter, renewal premium change was minus 5% for the quarter, but that doesn't really tell the whole story. If you dig really a layer deeper, there's a real bifurcation in pricing where what I'd call kind of admitted non-cat exposed properties still seeing low mid-single-digit rate trend and then large complex property placements, generally more cat exposed seeing pretty dramatic rate reductions, 20% to upwards of 40% on a rate perspective.

If we look at our real estate book specifically, which was about 20% of revenue in the quarter, overall renewal premium change was minus 11, and that's a cohort that's more exposed to that more large, complex side.

So I'd say if you normalize for kind of what we saw as a pull-through and some pretty meaningful increase in exposures on some large energy clients, rate and exposure would have been negative for the quarter, which informs our view on that persisting through the balance of the year. And then just continued really strong new business performance which speaks to the value delivery our colleagues are bringing to the market, the share we're taking and our confidence in continuing to be able to deliver outsized growth through the cycle because of the controllable nature of the new business engine we have.

**Tommy McJoynt**

Great. Thanks. I appreciate the details there. Brad, when you walked through the first driver of the shift to the high single-digit organic growth, talking about expectations for negative rate and exposure amounting to about \$15 million to \$20 million, can you talk maybe just about what gives you guys conviction that—that's a pretty quick change just to happen over three months. What gives you as conviction that it might not change again for the worse in the next three months?

**Trevor Baldwin**

Tommy, this is Trevor. Let me take that first, and then Brad can come in over top.

I'd say that is primarily informed by two factors. One is the rate of deceleration in property rate that we saw through the quarter. June in particular saw a pretty meaningful deceleration in rate and this assumes that persists through the balance of the year. The second dynamic is just—we continue to see sluggishness in capital expenditures and construction starts and things of that nature tied to uncertainty in the broader macro environment. So if that improves, that could certainly be upside to that. Let me just give you an example in the quarter of what we're talking about.

If you look at our construction business, which construction is—it was the second largest industry practice from a revenue perspective in Q2, but it's actually the largest when you look across all four quarters; it's about 18% of our commercial revenue in IAS. We saw rate and exposure in our construction practice compress by 24% in the second quarter. Now, the read-through on that is that's entirely exposure because it's not rate-driven in that industry class and that is a result of slowing project starts showing up in the form of lower project-based revenues.

With that being said, we grew our construction practice 11% in the quarter, but that was driven entirely by new business generation, which was really, really strong from the team. So what I would tell you is based on experience of when we've seen these cycles in the past, the jobs don't go away; they tend to slow down and defer as people are looking for clarity around input costs around macro environment, around financing costs and things of that nature, and they become spring loaded. Then you layer in, kind of that on top of that queue of deferred jobs, all the new business that we've been writing and a similar dynamic there and you've got the potential for real spring loading as we come out of some of the broader macro uncertainty that's been slowing down decision-making across our client base.

**Brad Hale**

Yes, I would just add to that, Tommy. As you know, in the past, insurance rate and exposure has never been a primary driver of our organic growth story. So it gives us confidence in what the downside here may be that we're predicting with respect to rate coming out of our book, if you will, because again, it just hasn't been a material significant driver in the past of our story.

**Tommy McJoynt**

Got it. Thanks guys.

**Trevor Baldwin**

Thanks, Tommy.

**Operator**

Thank you. Our next question comes from the line of Greg Peters with Raymond James. Please go ahead.

**Greg Peters**

Hey, good afternoon. I guess I'd like to pivot and have you talk a little bit about the disclosure, the adjusted free cash flow disclosure in your press release where you take out the contingent and payments of earn-outs and it was down on a year-over-year basis through the first 6 months. I thought maybe you could spend a minute and talk to us about some of the moving pieces inside those numbers for the first half of this year.

**Brad Hale**

Yes. As you know, Greg, we revised that presentation this year. Now we are fully through absorbing any changes in working capital that occur quarter-to-quarter and timing of free cash flow, particularly around AR and AP can fluctuate quarter-to-quarter, so it's not an area of concern for us. For example, we've already collected a number of the contingents that were responsible for the elevated AR since the quarter-end and for example, anticipate paying down \$20 million on our revolver by the end of this week.

We continue to believe our growth in free cash flow will be in line or better than our expected double-digit earnings growth for the foreseeable future.

**Greg Peters**

Okay. Thanks for the clarification there.

In your investor presentation, I noted one of the footnotes on the debt structure that some interest rate caps expire in November of this year. Is there any financial consequence to that as we think about next year?

**Brad Hale**

There is no financial consequence to that. Those caps were at a 7% base rate, so I would consider them to have been more sort of jump insurance in a worst-case scenario. But we outlaid the premium for that years ago, and they've never been in the money, so there's no direct financial consequence to that.

**Greg Peters**

Perfect. Then my last question, I'll just go back to the MainStreet organic revenue growth. I think you previewed that the next couple of quarters are going to be challenging because of the reciprocal start-up, but it feels like it's even coming in a little bit below expectations there. I know you spoke about it in your opening comments, but maybe we can go back and sort of unpack that, because you're talking optimistically about some of the opportunities you have in that business at the same time we're seeing the numbers go in the opposite direction.

**Trevor Baldwin**

Yes. Greg, this is Trevor. There's two drivers to the MIS OG print. One is, as we've talked about in the past, the commission reduction on the QBE builder portfolio that went into effect on May 1. That we've known about, that's a 1-year one-time impact over the next 12 months that then fully reverses back and becomes a tailwind over the following 24 months, and that is the largest driver.

The second is the impact we saw from elevated churn in our Medicare business tied to the broader dynamics in the managed care and Medicare Advantage space. And I'd say that was less anticipated.

If you normalize for those two dynamics, we would have seen organic growth in Mainstreet consistent with what you saw from us in the first quarter. While we expect that elevated churn in the Medicare business to continue to impact results for the next two quarters, we feel good about how we're positioned for this upcoming AEP. We feel good about the increased funding rates into the Medicare Advantage plans that has already been announced from the government and CMS and the stability that should bring to the market next year. This is a business we've consistently grown 10% to 20% a year every single year we've owned it. This year, we now expect overall revenues to be flat as a result of this elevated churn. I would expect us to return back to that double-digit organic growth next year based on what we're seeing.

I would also just point out the momentum we have, both in our builder and our mortgage businesses. If you look at Westwood as an example, if you normalize for the impact of the QBE commission reduction, organic growth for them in the quarter would have been 10%. In addition to that, there's a number of factors that

are driving increasing lead flow for that business. We added six top 50 new builder partners to Westwood last year. We've already added three new builder partners this year in addition to the eight new builders who joined the Westwood family as a part of the Hippo transaction. So we feel really, really good about the strength of our position in that channel.

Then if you look at the mortgage and the real estate space, I'd say we're very encouraged by the success and the momentum we're seeing. It's been several years of building the tech and the platform to be able to effectively serve the mortgage and real estate channels, and the momentum we're seeing with new channel partners is real. As I mentioned earlier, we're now live with seven embedded partners. Six of those were implemented just in the second quarter. We plan to implement another six to seven in the back half of this year, including one which is a top 20 mortgage originator in the country. And from a lead volume standpoint, these, call it 13 to 14 embedded partners, would have generated over 150,000 mortgage and real estate leads based on their 2024 volumes.

So I'd say just to level set, important to know these don't just turn on and start converting at high rates Day 1; it's a crawl, walk, run approach. We generally go state by state, turning lead volume on sequentially to ensure really strong execution and our ability to appropriately resource those things.

Our early data is showing right now a win rate of approximately 25% for those leads who are opting in to receiving a quote through our platform, which is very encouraging. But I'd emphasize again, it's still early. We're still working off relatively small data sets and embedded distribution, it builds slowly at first as it turns on but then really begins to snowball after maturing on the platform and in our overall processes.

So we're as excited as we've ever been about the momentum we have here. We have the dominant position in the builder space. I think we're positioned—if we continue to execute to really break out here in the mortgage and real estate space and our pipeline is as strong as it's ever been there.

### **Greg Peters**

Got it. Thank you for the additional detail. Appreciate it.

### **Trevor Baldwin**

Yes. Thanks, Greg.

### **Operator**

Thank you. Our next question comes from Andrew Andersen with Jefferies LLC. Please go ahead.

### **Andrew Andersen**

In one of the slide decks from earlier in the year, you were talking about a strong cohort of new advisers within IAS. Could you just maybe just talk about hiring through first half of this year and maybe what level of productivity those producers are operating at?

### **Brad Hale**

Yes, happy to, Andrew. We continue to focus on thoughtfully growing kind of the revenue-generating side of our colleague base. If you look year-to-date, headcount is up roughly 2% while revenue is up, call it, 10% to 11%. I think you've got to dig a layer deeper to really see where on a revenue-generating side, IAS sales headcount is up about 9% year-to-date, and it's up double digits year-over-year. Based on planned continued investment to the back half of the year, we would expect overall advisor headcount to be up mid-teens in the IAS business through the full year.

We continue to track productivity by cohort across all of our advisers and we're continuing to see success rates in the high 50s and low 60s, which is consistent with our past experience.

The first 12 months, we don't expect a whole lot of revenue generation out of most of these new hires. We expect that to begin ramping really starting around Month 9 through Month 18. Then by the second and third year, those folks tend to be generating new business results well in excess of industry benchmarks, and by Year 3.5, typically 2.5 to 3 times what the industry average new business generation is.

We continue to see really strong results there and, frankly, that's why you're seeing the really strong sales velocity results continue to pull through in the IAS business.

### **Andrew Andersen**

Thanks. Then on the Medicare impact that you mentioned in the quarter, I would have thought it's more impactful for 4Q, but I think you guys also do a slightly different revenue recognition compared to some of the Medicare brokers. Would you expect the quarterly impact to be more pronounced in 4Q? Or is it going to be kind of similar to what you experienced in 2Q?

### **Brad Hale**

No, we would expect it to be ratable Q2 through Q3 and Q4. Our rev rec tends to be heavier in Q1 when we book the full year expected revenue for the new members that have been enrolled during the prior year annual enrollment period. But our renewal revenue is largely recognized either monthly or quarterly based on the pattern of payment streams from the Medicare Advantage plans.

### **Andrew Andersen**

Thank you.

### **Brad Hale**

Yes.

### **Operator**

Thank you. Our next question comes from the line of Hristian Getsov with Wells Fargo. Please go ahead.

### **Hristian Getsov**

Hi. Good afternoon. Can you discuss what you're seeing in the M&A space? I feel like maybe multiples are starting to at least level and maybe come down a little bit. And I understand the focus for this year is to continue to de-lever, but can you talk about what you're seeing in terms of multiples and any areas that are of particular focus once you get to your leverage target that you'll potentially look to expand in terms of inorganic opportunity?

### **Trevor Baldwin**

Yes. Hey, Hristian, this is Trevor. I would say, one, we continue to see really healthy deal flow activity, which is encouraging. Two, I would say, we are seeing really a divergence in M&A pricing, whereas if you look back a few years ago and there was a lot more active acquirers when, frankly, you had more private equity-backed consolidators that were active than you have today, I'd say there was maybe less discernment around pricing for M&A. So the difference between what we would view to be a really high-quality business that has consistently delivered double-digit organic growth, has strong margins, recognizable in client industry and you have sector expertise or product capabilities in the MGA side, and then that of a business that maybe is mid-single organic growth, no real specialization, an aged workforce,

there wouldn't be a whole lot of pricing differential a few years ago, and today I think you will definitely see that.

I think the very, very good high-quality businesses—which is, frankly, all we really have an interest in trading in—continue to command top tier pricing because those continue to be sought-after assets. Whereas I think some of those more average or even, dare I say lower-quality businesses are struggling I think to command the type of pricing that they would have gotten a couple of years ago.

**Hristian Getsov**

Got you. Thank you. Then for the full year organic, the high single digits—and I appreciate you gave like the commission headwinds you expect for each segment—but is it safe to say you kind of expect IAS to be kind of in the mid- to high single digits, UCT as kind of in the 20 range and then Mainstreet around flat? Is that kind of like how you guys are thinking about it?

**Trevor Baldwin**

Hey Hristian, we shy away from providing segment-level guidance around organic but did try to provide some of the building blocks with the specific disclosures around kind of what headwinds that we're seeing. I'd say we're expecting mid single-digit organic growth overall for the platform over the back half of the year as a result of those headwinds of which they're more pronounced in our Mainstreet business as we talked about., and then in IAS as a result of the rate and exposure trend we're now anticipating and then the one-time shift in revenues out of the back half of '25 into '26.

**Hristian Getsov**

Great. Thank you.

**Trevor Baldwin**

Thank you.

**Operator**

Thank you. Our next question comes from Josh Shanker with Bank of America. Please go ahead.

**Josh Shanker**

Thank you for taking my question. Good evening everyone. Just to clarify, you said that with this quarter, the last of the payments for contingent earn-out consideration are finished. Does that include consideration that was earmarked for payment to partner employees who will be paid internally?

**Brad Hale**

Yes, Josh. It is 99% of it, I'd say. We have one looming deal that has, call it less than \$5 million potential earn-out incentive for colleagues that remains on the balance sheet, but that's the only one left.

**Josh Shanker**

All right. Can you just give us some guidance going forward? It seems like now that's all passed, so thinking about tax rate as being up a little bit this year, but going forward, as you think about '26, '27, the out years, should you be a normal taxpayer at the federal level?

**Brad Hale**

I do not anticipate we would be a cash taxpayer for a number of years yet. We still sit with some NOLs at the corporate level. One of the recent additions to the Big Beautiful Bill was restoring some interest deductibility limitations that were previously quite harsh on us. So our ability to deduct more interest expense over the coming years is sort of going back to where it was in the '22 and previous periods, which is only going to defer the period of time until which we're a cash taxpayer.

I think we'll remain with a valuation allowance in our financials. We'll continue to utilize what is the best representation of an effective rate at that roughly 10% in our adjusted earnings, but I think we have a couple of years yet until we're sort of in a normalized tax position and a cash tax payer.

**Josh Shanker**

Okay. Thank you for the answers.

**Operator**

Thank you. Our next question comes from Pablo Singzon with JPMorgan. Please go ahead.

**Pablo Singzon**

Hi. First one for Trevor. In the first quarter, you guys called out softness in the employee benefits business, which at that time is a bit different from what other insurers or brokers are talking about. I was wondering if there's been any change in condition since then, and I guess prospectively, where you see the market evolving from here.

**Trevor Baldwin**

Yes. I'd say on the employee benefit side, we continue to see modest rate and exposure dynamics consistent with what you heard from us in the first quarter. With that being said, we continue to drive meaningful growth in that part of our business, winning new clients, taking share. I'd say elevated medical loss ratio trends as of lately are certainly creating opportunity for our advisers and consultants to come in and help clients explore unique and innovative solutions to really bend that cost curve.

**Pablo Singzon**

Got you. Then just on your outlook for the IAS business, I understand I guess, sort of the buffer or the haircut you're putting in for rate and exposure. I was wondering, is that very different from what you saw in the second quarter? Therefore, if it's the same, are you sort of assuming that maybe some of the new business gains you saw might not persist in the second half? Or maybe a mix of those two factors, right? But any sort of help you can provide thinking about that component of growth versus new business, especially comparing 2Q which is I think better than what most were expecting and the slowdown you're implying for the second half?

**Trevor Baldwin**

Yes. Yes, it's a great question, Pablo. If you look at Q2 specifically, the impact from rate and exposure was a 1.3% tailwind, which is frankly better than we were expecting. But yes, to pull that apart, as I mentioned earlier, we did benefit from a significant increase in exposures and limit buys from certain of our larger energy clients, which really pushed that number up higher than we were expecting. That was somewhat unanticipated on our part.

If you think about what are we extrapolating forward into our assumptions on Q3 and Q4, it's normalizing that benefit out of the Q2 numbers. Like you heard me mention renewal premium change for property broadly in the quarter was minus 5; if you look at our real estate clients, it was minus \$11 million. If you look at our construction book, exposures were down, although revenues were up as a result of new business

success. So we're expecting negative rate and exposure in both Q3 and Q4 as a result of those dynamics largely market-driven.

But I would also then back up and just kind of remind everyone, this is kind of a, I'd say what I would consider to be a somewhat one-time change in direction of travel relative to the overall rate dynamics, but I wouldn't expect that to persist over time.

If you think about the broader secular trends in our industry, risk and exposure is going up. If you think about physical values at risk are up dramatically, not only because of building and construction, but also because of the increased cost of construction. The aggregation of those values at risk continues to be most heavily concentrated in those geographies in our country that are most exposed to natural catastrophe losses.

If you look at both the frequency and severity of nat cat risk, it's up dramatically over the past decade. Then if you turn to the casualty side and loss cost trend continues in the mid- to high single digits for a number of reasons, but just to call out a couple: social inflation, litigation finance, and torte dynamics at the state level. So if you put all that into a blender, the relative rate of increase and risk is going to continue at a mid single-digit level or higher.

So while our industry certainly has and will continue to have pricing cycles—and we're seeing one right now—I would point out that property pricing cycles, in particular, tend to be very short in nature before they flatten out one way or the other. Over time, we would expect trend to be mid single digits or higher relative to the cost of risk, and then you overlay on top of that our ability to go out and take share in the market when you look at sales velocity, premium growth and new product launches in the MGA, what we're doing on the embedded side, and you've got a secular story here that is really outsized growth over a very long-term period of time.

**Pablo Singzon**

Yes, that was helpful, Trevor. Just a quick follow-up, just to sort of tie up everything you've said so far. I understand the rate exposure on the sales velocity side, I think you said 22% for the second quarter.

**Trevor Baldwin**

That's correct.

**Pablo Singzon**

I'm assuming or you're expecting something similar-ish for the second half of the year, right? Or are you assuming some major change in that trajectory?

**Trevor Baldwin**

We're not expecting a major change there. I'd say I'm never going to plan for really outsized sales velocity. I'm going to expect it from our teams, but not incorporate it into how we set expectations with folks such as you. We're incorporating an expectation for continued top of industry sales velocity, consistent with what you've seen from us in the past. And I'd say if I look back across the past five years, we have consistently been high teens and low 20s sales velocity in our business. That's just, that's what we know how to do.

**Pablo Singzon**

Thank you.

**Trevor Baldwin**

Thanks, Pablo.

**Operator**

Thank you. Our next question comes from Charlie Lederer with BMO Capital Markets. Please go ahead.

**Charles Lederer**

Hey, thanks. Maybe just following up on those last comments, do you have a view on how rate and exposure might look for '26 for property and how dependent that is on the second half cat season?

**Trevor Baldwin**

It's certainly somewhat dependent upon the second half cat season. What I'd say, though, is I would not anticipate a reversal in rate activity. I also wouldn't expect or anticipate rates to continue to decelerate at the pace that they are now.

Property pricing cycles tend to be pretty short, a year or two at most, and most of that action tends to come very quickly and very fast, frankly, as we're seeing in real time right now. So I would expect some degree of stabilization next year in the property market.

**Charles Lederer**

Thanks. On the E&S home pressure, can you unpack that a little bit? I guess, how much of that related to the reinsurance renewal, and is that just commission changes or is it also less capacity?

**Trevor Baldwin**

No. We've got plenty of capacity. I'd say the reinsurance renewals were as expected. That headwind was already incorporated into our prior expectations. This is entirely market competition driven. We have seen new entrants, significant new capacity deployed by large multiline and broad-based carriers. We've seen increased capacity in binders from London. And frankly, we're seeing pricing as well as terms and conditions being deployed at a place where we don't feel it's prudent to chase the market to.

In our UCTS business, we're underwriters first and we're charged with safeguarding the returns of the capital that our risk capital providers put behind our products. So while we are remaining very disciplined from an underwriting standpoint and that should protect the integrity of the loss cost and loss experience of our portfolio, it is having an impact in the new business that we're able to generate compared to last year and compared to our expectations coming into the year this year.

But if you step back and you look at our MGA broadly, we're not overly exposed to the E&S marketplace. Less than 25% of our premium across the MGA portfolio is E&S. You heard from me earlier in all the various areas we're driving growth and this is just part of having a multiproduct, multiline MGA business, is you've got to manage underwriting profitability closely and sometimes that means pulling in the reins on any particular line of business to protect the underwriting integrity, and we're going to do that. But then separately, we're going to capitalize on the growth opportunities that we see in other areas.

The balanced portfolio approach will lead to consistent growth over time, as you've seen. I'd just say that the impact on E&S is certainly more pronounced than we expected even 90 days ago.

**Charles Lederer**

Thanks. That's helpful. Is that concentrated anywhere? Like geographically or...

**Trevor Baldwin**

In all the places where E&S business is written. It's on the coast. It's in places like Florida. Texas, California, as an example, as well as up the Eastern seaboard and throughout Gulf of America.

**Charles Lederer**

Thanks.

**Operator**

Thank you.

**Trevor Baldwin**

Thank you, Charlie.

**Operator**

Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Trevor Baldwin, CEO, for closing comments.

**Trevor Baldwin**

Thank you all for joining us on the call this evening. We remain excited for the underlying momentum we have in our business as evidenced by continued outsized growth in new client wins, margin accretion and the onset of a significant inflection in our financial profile from the settling of all our earn-out payments from the partnerships completed in our first five years as a public company.

In closing, I want to thank our colleagues for their hard work and dedication to delivering innovative solutions and exceptional results for our clients. I also want to thank our clients for their continued trust and confidence in our teams. Thank you all very much, and we look forward to speaking to you again next quarter.

**Operator**

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.