The Baldwin Group, Inc.

Third Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Bonnie Bishop, *Executive Director, Investor Relations*

Trevor Baldwin, *Chief Executive Officer*

Brad Hale, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Tommy McJoynt, *KBW*

Hristian Getsov, *Wells Fargo*

Gregory Peters, *Raymond James*

Pablo Singzon, *JPMorgan*

PRESENTATION

Operator

Greetings, and welcome to The Baldwin Group Third Quarter 2024 Earnings Conference 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, zero on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Bonnie Bishop, Executive Director, Investor Relations. Thank you, Ms. Bishop. You may begin.

Bonnie Bishop

Thank you. Welcome to The Baldwin Group's Third Quarter 2024 Earnings Call.

Today's call is being recorded.

Third 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.

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

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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.

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 third quarter results, reported earlier this afternoon. I'm joined this afternoon by Brad Hale, Chief Financial Officer, and Bonnie Bishop, Executive Director of Investor Relations.

The third quarter ended with Hurricane Helene and was quickly followed by Hurricane Milton, marking one of the more intense hurricane seasons in recent history, particularly for Florida's west coast. With over 1,000 colleagues throughout the State of Florida, we witnessed firsthand in our communities the destruction and loss caused by these two major storms. We worked quickly to assess the safety of our colleagues and simultaneously focused on assisting with the recovery efforts of our clients throughout the affected areas.

As we continue to work through the recovery process, I am reminded yet again of the critical role we in the insurance sector play during some of the most challenging moments of our clients' lives. It is during these times, when people and businesses have endured catastrophic loss and are dealing with displacement, financial uncertainty, property damage, and overall disruption, that our industry steps in to help make people financially whole and get back on their feet. My sincere pride and gratitude extends to our colleagues who are working tirelessly for our clients to provide them with expertise, guidance and solutions to navigate the aftermath, lead the recovery, and ultimately continue to Protect the Possible.

With that, I'll go through our results for the third quarter, where we saw steady momentum across the top line, while also delivering margin improvement and adjusted free cash flow expansion. Both organic revenue and core commissions and fees revenue grew 14%, a testament to the strong underlying performance we are seeing in the business and the overall resiliency of our business model in the face of increased headwinds from external market dynamics.

Year-over-year, Adjusted EBITDA grew 14%, 18% normalizing for the pro forma impact of the sale of Connected Risk earlier this year. Adjusted EBITDA margin expanded approximately 60 basis points to 21%, and adjusted free cash flow grew 15% to $27.8 million. Year to date, we've generated Adjusted EBITDA margin accretion of approximately 160 basis points to 24% and adjusted free cash flow of $99.2 million, which is up 31% from the prior year period, or up 49% excluding the impact of one-time third-party refinancing costs incurred at the time of our debt refinancing in the second quarter.

We remain bullish on the long runway of operating leverage ahead, as our business continues to scale. We are now less than two quarters away from satisfying substantially all of our remaining earnout obligations, which will result in a step-function improvement in our net leverage and adjusted free cash flow profile over the course of 2025, and beyond.

Turning to our segment results, in IAS, overall organic revenue growth for the quarter was 7%, bringing the year-to-date total to 9%. Organic commissions and fees revenue was up 6% for the quarter and 10% year to date. We absorbed increased headwinds from rate and exposure compression in the third quarter of 4.7%, driven by timing-related softness in our construction practice as a result of certain new job starts from our existing clients pushing out, which negatively impacted project-based revenues, as well as flat exposure growth in our employee benefits business. This compares to a 1.3% tailwind from rate and exposure in the prior year period, a 600-basis-point differential year-over-year.

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Offsetting those external market-driven headwinds, our internally-driven new business production remains industry-leading, as sales velocity for the quarter was 22%, a 400-basis-point improvement over the third quarter of last year, which brings our year-to-date sales velocity to 21%, a 430-basis-point improvement over the prior year period.

Client retention was roughly flat year-over-year at approximately 90%. Notably, after generating $30 million of new business in the quarter, a 36% increase over Q3 of last year, our year-to-date new business production through the third quarter stands at $95 million, a 46% increase over the same period last year and a 7% increase over total new business produced in the entire calendar year of 2023.

These outsized results in both sales velocity and absolute new business production, two key indicators of the underlying health of our IAS franchise, give us conviction in our double-digit organic growth outlook for the full year and reinforces the resiliency of our business model to outperform through market cycles.

Lastly, in the wake of our rebranding this year, we have seen a broad-based acceleration in the recognition and awareness of our reputation among industry-leading talent, evidenced by growing success on the advisor hiring front, which we believe will enable us to continue delivering organic growth in our IAS business that out-indexes that of our peers for the foreseeable future.

Our UCTS segment had a fantastic third quarter, with organic revenue growth of 26% and commissions and fees growth of 31%. Our multifamily and home portfolios continue to thrive, generating 26% and 39% organic commissions and fees growth, respectively. Additionally, we continue to see growing contribution from our 2023 new product cohort and Juniper Re, both of which, individually, added 2.5 points to the UCTS total organic growth rate.

Our MIS segment delivered total organic revenue of 14% and commissions and fees revenue growth of 11% in the face of a moderating personal lines rate and exposure environment and capacity challenges in some key markets, such as California. Additionally, Westwood added another major builder partner in the quarter, its seventh in the last 12 months, as our value proposition as the embedded insurance provider of choice to the builder channel continues to be validated in the marketplace. Our national mortgage and real estate operation is making strong progress on the embedded front and remains on track to break-even on a run rate basis in 2025, which should be a margin tailwind for us in 2026, and beyond.

In summary, we are pleased with the strength of our results for the third quarter amidst the evolving market backdrop we're seeing, and I remain confident in our ability to continue to deliver outsized organic growth, margin accretion and expanding free cash flow well into the future. The resiliency of our business model was on full display this quarter, reinforcing our ability to outperform and deliver outsized top and bottom line growth through market and economic cycles.

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

Brad Hale

Thanks, Trevor, and good afternoon, everyone.

For the third quarter, we generated organic revenue growth of 14% and total revenue of $338.9 million. Looking at the segment level, we generated organic revenue growth of 7% at IAS, 26% at UCTS, and 14% at MIS.

We recorded GAAP net loss for the third quarter of $14.5 million, or GAAP diluted loss per share of $0.13.

Adjusted net income for the third quarter, which excludes share-based compensation, amortization and other one-time expenses, was $38.5 million, or $0.33 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.

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Adjusted EBITDA for the third quarter rose 14% to $72.8 million, compared to $64 million in the prior year period. Normalizing for the pro forma impact of the sale of Connected Risk earlier this year, Adjusted EBITDA grew 18%.

Adjusted EBITDA margin expanded approximately 60 basis points year-over-year to 21.5% for the quarter, compared to 20.9% in the prior year period.

Adjusted free cash flow for the third quarter was $27.8 million, a 15% increase year-over-year, a direct reflection of our continued focus on expense discipline and operating leverage in the business.

In the third quarter, we paid $5.5 million of earnouts in cash, inclusive of amounts reclassified to colleague earnout incentives. In October, we paid an additional $14 million, bringing our year-to-date total cash earnout spend to $115 million. Our remaining estimated undiscounted earnout obligations now stand at approximately $194 million.

As a reminder, several of our partnership agreements contain provisions that permit former selling shareholders to allocate portions of the earnout proceeds to colleagues who meaningfully contributed to the partnered firm's achievement of the earnout. When this determination is made, we record compensation expense that is an offset to the change in contingent consideration and neutral to net income. As a result of this practice, we have added back $4.3 million of compensation expense in the third quarter associated with colleague earnout incentive payments, and based on current estimates, expect to add back between $40 million and $50 million of additional colleague earnout incentive payments in the fourth quarter associated with earnouts that are coming due. Given the outsized earnout obligations we expect to settle in the first quarter of 2025, the amount of the colleague earnout incentive payments will likely be larger than we've experienced in prior quarters, but will be added back, consistent with our historical practice.

We also wanted to identify a tax-related addback that may surface for the first time in Q4 2024, related to certain payments made in conjunction with our tax receivable agreement between the public company and owners of the LLC. As a reminder, our Up-C structure provides a tax benefit to our Class A common shareholders, a portion of which is shared with the owners of the operating LLC that sits below the public C-Corp who have redeemed their LLC units for Class A common stock. This flows through our P&L as a cash operating expense, which could be $3 million to $8 million in the fourth quarter, and will be added back as a tax-related item.

At the end of the third quarter, net leverage stood at 4.2 times, a further reduction of nearly a quarter turn from the second quarter, as we continue to make progress towards our goal of bringing net leverage back within our stated long-term range of 3 to 4 times by year end.

As Trevor alluded to in his opening remarks, given the near-term rate and exposure trends we're seeing in the business, and a cautious view of loss ratio-sensitive contingent post the recent hurricane activity, we are taking a more conservative on our fourth quarter and full year 2024 earnings results.

For the fourth quarter of 2024, we expect revenue of $325 million to $335 million and organic revenue growth toward the high end of our 10% to 15% long-term range. We anticipate Adjusted EBITDA between $61 million and $66 million and adjusted diluted EPS of $0.25 to $0.29 per share. For the full year of 2024, this implies expected Adjusted EBITDA of $310 million to $315 million, year-over-year margin accretion of approximately 200 basis points, and adjusted free cash flow of $140 million to $150 million.

Consistent with prior years, we are also sharing a broad initial view of 2025 financial expectations. We preliminarily expect 2025 organic growth towards the midpoint of our 10% to 15% long-term target range, margin accretion of approximately 25 to 100 basis points, and continued improvement in adjusted free cash flow conversion. Our initial view reflects expected continued strength in the underlying fundamentals of all three of our segments, the potential for some commission erosion at the MGA and Westwood related to our obligation to help our carrier partner source reinsurance for our builder-focused homeowners program,

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a degree of conservatism in our rate and exposure assumptions in both IAS and MIS, and an expectation for continued operating leverage and margin accretion from compensation and operating expenses as the business continues to scale.

In summary, we are pleased with the performance of the business year to date as we work to deliver on our stated goals of reducing net leverage, expanding margins and maintaining overall double-digit organic growth, and as we march steadily towards a real inflection point in our free cash flow profile starting in the second quarter of next year. As Trevor mentioned, we continue to see incredibly strong internal fundamentals across all three of our segments, and feel confident in our ability to generate durable, outsized results for shareholders.

We will now take questions. Operator?

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, 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 key. One moment, please, while we poll for questions.

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

Tommy McJoynt

Hey, good evening, guys. Thanks for taking our questions. There's some headlines around Westwood and it sounds like you touched on it there at the end, and potential—we've seen headlines around potential issues around the underwriting profitability and capacity for Westwood. So, what information can you guys share that would be helpful in terms of Westwood's carrier capacity mix, kind of how long that capacity is contracted for, as well as the underwriting profitability of those programs?

Trevor Baldwin

Yes, hey, Tommy, good evening. This is Trevor. I'm happy to cover all those areas, and would just start out with saying we're aware of the report, and I would tell you it contains a number of statements that are factually inaccurate, incomplete and/or misleading.

Let me start with a comment regarding our partner with the builder program, which is QBE, and they've been, and continue to be, a great partner for us. So, let's go through a few things here.

First, the assertion that our relationship with QBE is definitively ending in May of 2025 is misleading. The initial term for the QBE Program Administrator Agreement, which we signed with QBE at the time that we acquired Westwood with our MGA, goes through May of 2025, but extends through May of 2027, with our support helping QBE arrange reinsurance that equally covers the business to be written between May of '25 and May of '27, which I would highlight brings the QBE program structure in line with how all of our non-QBE homeowners programs are structured today. We're currently working to arrange the reinsurance program to support that QBE program through May of '27, and feel good about our execution, based on the historical loss ratio performance of this book. Specifically, over the last 10 years, the builder program loss ratio has outperformed a basket of the top 15 largest homeowners riders by an average of 800 basis points of loss ratio per year, and that trend has persisted since the inception of the Program Administrator Agreement when we took over.

As Brad mentioned in our prepared remarks, we are preparing for some erosion in program economics in '25, as a result of our obligation to help QBE arrange this reinsurance cover, and while the outcome could vary, as we're still six months out from the need for that reinsurance to go live, our best estimate today of

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the potential impact is $10 million to $15 million of Adjusted EBITDA in 2025, which will likely show up both in UCTS and IAS top and bottom line results, but which is already fully contemplated in the initial 2025 financial expectations, that Brad discussed in our prepared remarks.

I think it's also important to just talk a little bit about the Westwood franchise and kind of how that business has grown, and where capacity is coming from that's supporting it.

When we closed on Westwood in April of '22—so as of May 1 of '22—the QBE program represented roughly 43% of premium in-force. Today, that's 37%, as of 9:30, as we've focused less on growing the QBE builder program and more on modernizing forms, increasing rate structures, and preparing that program to successfully enter the third-party reinsurance market. Alternatively, from that, non-QBE capacity supporting Westwood was 57% at the time of our acquisition and today is 63%, representing a 76% growth. So, when you look at what is supporting the growth of Westwood, it's broad-based capacity, and we continue to feel really good and confident about our ability to source reinsurance to support QBE, and continue managing the program through May of '27.

I think it's also, considering the topic of the report, probably worth Brad just sharing a few thoughts on some of the allegations around some of the Medicare M&A that was completed. So, Brad, do you just want to jump in?

Brad Hale

Yes, thanks, Trevor. In the Medicare business, we operate as a national distribution platform on behalf of our health plan partners, and what is commonly referred to in the industry as a national field marketing organization, or FMO for short. That means our health plan partners delegate to us, in part, or all of, their responsibility for contracting third-party agents and agencies, providing them with ongoing compliance and training and oversight, as well as sales and marketing training and oversight support. From time to time, we acquire these down-line agencies in order to control more of the distribution value chain and increase our share of the economics. You can think about this as us vertically integrating ourselves down into the value chain and acquiring agencies and their direct agents who are closest to the plan members we provide advise and enrolment and support to.

The agents of these third-party Medicare distribution agencies are not employees of Baldwin and the agencies are in no way controlled by us preacquisition. Therefore, we can confirm we've appropriately accounted for these acquisitions under US GAAP. The $1.8 million of earnouts paid to the acquisitions mentioned in the report, in addition to all of our earnout payments, are in no way a replacement for, or in lieu of, compensation. They represent incentive-based, transaction-related payments that are the industry standard in insurance agency acquisitions.

Trevor Baldwin

Tommy, any follow-up?

Tommy McJoynt

Yes, just one quick one, numbers. You mentioned the $10 million to $15 million of EBITDA impact. Is it fair to think of that as only a half-year or potentially eight-months' impact and there would be an additional impact in '26 over '25, similarly to that?

Trevor Baldwin

Yes, Tommy, that's the right way to think about it. I'd say you should think about it as kind of a one-time impact, that clearly we're able to absorb, while still increasing margin and delivering industry-leading kind of, you know, mid-teens or solid double-digit organic growth. So, we feel really good about how we're positioned for next year.

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Tommy McJoynt

Got it, thanks. I'll hop back into queue.

Trevor Baldwin

Thanks, Tommy.

Operator

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

Hristian Getsov

Hi, how are you? For the IAS, I know you reiterated staying in the double-digits for the full year, but I guess that kind of implies an acceleration in Q4, so I guess what gives you kind of the confidence? Because, you talked a lot about stuff kind of getting pushed back in terms of like construction, and all that, but I feel like if it was getting pushed back, it would likely get pushed back even further than the Q4. So, I guess, have you seen something maybe gives you a little bit more confidence going into Q4 that you could see that kind of accelerate from here?

Trevor Baldwin

Yes, hi, Hristian. This is Trevor. I'd say three things. One, our expectation assumes the rate and exposure headwinds persist into Q4. With that being said, there's two dynamics that give us confidence around the acceleration in the quarter. One is our visibility into continued really strong new business results and the prior year comp being kind of a relatively easy comp that we're growing off of.

Hristian Getsov

Got you. Then, in terms of, like, if we get a potential macro slowdown, let's say, first half of next year, is that—have you guys put some thought into your 2025 guide? I know you guys talked about rate and exposure kind of maybe continuing to maybe not decelerate, but maybe stabilize. I'm trying to get a sense of what percent of your business would you say is macro-sensitive. I don't think you guys have ever quantified what percent construction is, which I would consider is macro-sensitive, but is there any other points of your business that might see a slowdown if, let's say, a mild recession kind of materialized early next year?

Trevor Baldwin

I'd say the two areas I'd point out would be construction and employee benefits, which is headcount-centric. Construction across our business, you can think about it, it's about a $100 million revenue business. Employee benefits would be about 30% of the overall IAS business. I'd think about, frankly, what we're seeing in the third quarter as being kind of the relative impact you could expect in that type of an environment, and it's certainly kind of conservatively contemplated that those headwinds persist into '25, based on the expectations that we've set.

Importantly, what I'd just reinforce for you, Hristian, is we feel really good about the durability of our growth profile, our earnings growth opportunity and the margin accretion runway that we have ahead of us, as a result of how much of our overall growth is driven by net new business, which, as you saw in this quarter, enabled us to power through those market-driven headwinds. So, while there are some impacts, puts and takes, so to speak, around both insurance and economic cycles, as a result of the consistent ability we have to deliver outsized new business, we're confident around our ability to kind of grow in an outsized manner through those cycles.

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Hristian Getsov

Got you, and one more, if I can. I know previously you've kind of commented on multiples and the M&A world. I guess, have you seen any shift in—and I know you guys are bringing your leverage down, but I guess with the lower rate environment, let's say it turns even lower quicker than you guys expected, would you guys return to M&A quicker than you originally expected, or are multiples a little bit too high and you'd want to see some contraction there, as well?

Trevor Baldwin

Yes, I'd say, from what we're seeing and hearing, multiples continue to be very high. Our M&A strategy is not going to be dictated based on the rate environment that we're seeing. It's a function of our financial profile and the strategic nature of the businesses that we'd be looking to acquire, and the capabilities and resources that they bring to our platform. We continue to remain focused on strengthening our financial profile, which should see a meaningful inflection next year. We're really excited about the accelerating free cash flow and continuing path to de-levering, as we continue to post really industry-leading growth results, healthy margin accretion and overall strong top and bottom line results. So, we're not thinking about M&A being a meaningful driver to our results next year, and as I've said in the past, I would not model any actual M&A in the year next year.

Hristian Getsov

Got you. Thank you.

Operator

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

Gregory Peters

Good afternoon, everyone. I want to get back to the margin guidance. I just want to make sure we're picking up all the pieces in the change for the outlook for '24. Then, the other question I had, related to margins in the context of the guidance for '25, is that with the substantial, let's call it, 10% plus sort of organic target for the enterprise for next year, I would anticipate that—I think the low end of your guidance is a 20-basis-point margin improvement. That seems kind of light in the context of the growth that you're expecting. So, just help us reconcile those two things, please.

Trevor Baldwin

Yes, hey, Greg, good evening. Let's take those one at a time.

For Q4, there's really two drivers that are causing us to put forth some conservatism in our outlook. One is the kind of rate and exposure headwinds we saw in Q3, we're baking in an expectation for that to persist across our IAS and MIS businesses. The second is an expectation for a one-time, call it, $2 million to $3 million top and bottom line impact to contingent loss ratio-based profit-share contracts related to the recent storm activity.

When we look to 2025, you're right, we are outlining an expectation for double-digit organic growth. As we've kind of consistently said, we believe our business is capable of and will deliver through market and economic cycles.

When you look at the low end of that margin accretion guide at 25 basis points in a vacuum, I would agree with you that is relatively low considering that growth path. However, what that contemplates is a built-in

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kind of EBITDA headwind associated with our obligation to help QBE source reinsurance to support the builder program beginning in May of '25, which we've sized right now at $10 million to $15 million. If you normalize for that, you can think about kind of a more, kind of regular way, kind of year-in/year-out margin accretion expectation.

Gregory Peters

Fair enough. I know you said it in the comments, but I want to make sure I got it all.

Trevor Baldwin

Yes.

Gregory Peters

Then, my follow-up question is just around organic revenue growth. I know you covered some of the headwinds in IAS. Maybe you could address—if you look at the rate of change of organic, if we look at sequential trends, and I don't want to get hung up on sequential trends, but even annual trends, it's slowly—the rate of change is slowly slowing down, I should say, but by no means is it—it's still a great result, but I'm just curious how you feel about that outlook. When we're modeling our projections going forward, is it fair to assume that UCTS, over time, is going to gradually migrate to your 10% to 15% range, or how are you thinking about it?

Trevor Baldwin

There's a lot there, Greg. Let's maybe start high level and then we can get into some more granular specifics.

When you think about kind of the rate of change in organic, I would tell you in the retail businesses, so IAS and MIS, entirely driven by change in rate and exposure, and so I don't have an expectation that you're going to continue to see a rate of change. If anything, I think it would move back up over time. I mean, take IAS as a specific example in the quarter. Rate and exposure was a 600-basis-point headwind to organic growth in the quarter. So, normalizing back to the same, call it, 1.3% tailwind that we experienced in last Q3, IAS's organic growth would have been 13%, rather than 7%, which is kind of healthily right square in the middle of our long-term 10% to 15% target.

A 1.3% rate and exposure trend is not something that I would characterize as kind of outsized or kind of unique in nature. When you think about the fundamental ways in which rate and exposure building blocks build, you can think about kind of GDP for the economy, largely, as being a proxy for exposure unit expansion or compression, plus or minus the impact of what's happening with pricing and the economy, and then insurance rate, and we've certainly, over the past few years, been in a constructive rate environment. That has begun moderating over the past few quarters, which is, I think, consistent with what you've probably seen across the industry. But, I would just point you back to our ability to consistently deliver net new business results that meaningfully kind of exceed industry norms, which leads us to our confidence in our ability to continue to deliver meaningfully outsized organic growth relative to the industry over time.

I would take a similar viewpoint in MIS. We're innovating the way in which personal insurance is consumed and distributed via our embedded strategies. We are the clear leader of embedded insurance solutions at point of new home sale via our Westwood franchise. New builder leads through that channel were up 13% in the third quarter and 12% year to date, which is a proxy for the type of growth we should expect on a unit basis over the next six to nine months.

In our relatively nascent mortgage and real estate-focused business, we're seeing really encouraging trends. Monthly new business policies in the third quarter were up 48%, compared to the prior year. Advisor

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or sales professional productivity was up 20%. As a result of those productivity gains, our average cost per new policy is down 17%. Our average new business revenue, on a monthly basis, was up 54% in the quarter, compared to the prior year.

When you look at the change in organic growth for that segment sequentially or year-over-year, it's really a rate and exposure story, and we are, admittedly, coming of historic highs from a personalized rate standpoint, but I think we're all clear-eyed around the reality that the combination of evolving weather patterns, continued concentration of building and values being in our riskier coastal CAT-prone areas, as well as—pick your characterization—legal system abuse, social inflation, all leading to a need for ongoing outsized rate across those lines of business.

So, we feel really good about the fundamentals, they're internally driven, and that should position us to grow through the cycles.

In UCTS, that business is taking advantage of secular trends around kind of premium moving out of the traditional insurance company format into delegated authority underwriting constructs. We continue to be focused on launching three to five new products a year. You heard in my prepared remarks the 2023 slate of new products contributed 2.5 points to OG in the quarter. Both our multifamily product line, Renters, which is our original kind of oldest, most mature product, was up mid-20s organically, and our Home product suite was up nearly 40%, and I can tell you that's largely driven by non-QBE programs, as we continue to constrain the growth of QBE and focus more on product modernization there.

So, we feel really good about how the business is positioned, our ability to drive durable, outsized growth and continue to harvest margin, and kind of march down that very clear and long path of margin accretion well into the future.

Gregory Peters

Well, that's a full answer, I appreciate it. Just one minor last question. You mentioned customer retention, and I think that related to the IAS channel. Can you talk about producer retention? That's another critical driver. How's your producer retention holding up?

Trevor Baldwin

Yes, we feel great about our producer retention. We refer to our producers as risk advisors. We track colleague retention, Greg, on a monthly basis, and one of the key metrics I pay attention to is our retention of what we call our vanguard colleagues. That's the top third of our colleague population, as they rank from a performance basis every year. As of September, our retention of vanguard colleagues was in excess of 95%. You can carry that statistic through to our advisor population, and that is illustrious of kind of the strong retention we're seeing.

Gregory Peters

Thanks for the answers.

Trevor Baldwin

Thanks, Greg.

Operator

Thank you. A reminder to all the participants, that you may press star and one to ask a question.

The last question comes from the line of Pablo Singzon with JPMorgan. Please go ahead.

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Pablo Singzon

Hi, good evening. A couple for me. Can you please explain how the change in QBE's reinsurer will result in lower EBITDA for you? I'm just not clear on how that works.

Trevor Baldwin

Yes, hey, Pablo. This is Trevor. When you look at the way MGA programs are structured, particularly when it's with reinsurance, kind of purchased separate from kind of the paper that you're writing the program on, you can think about there being kind of three components of the overall cost structure. There's a fee that goes to the insurance company who's providing the regulated paper that you file and write the product on. They will typically take some risk on the program, as well, as part of the reinsurance panel. You can then think of kind of a percentage of the premium dollar that gets paid to the reinsurers for taking the risk on that program, and so that would be effectively your expected losses, plus some margin for those risk bearers. Then, you can think about there being a fee for claims adjudication, which generally we are the TPA for our programs and adjudicate those claims, and so that fee goes to us. Then, you can think about commission for providing the kind of program administrator services, so everything from product development and ongoing filings to underwriting, to policy issuance, and everything in-between.

Specific to the QBE program, QBE was writing that net all along, and intended from day one. The reason they sold Westwood was to get out of North American personal lines. At least that was what was communicated at the time. So, the plan has been all along for that to be kind of a gradual transition into the more traditional program market, whereas in May of '25, they would transition to being more of a paper provider and us bringing in a panel of third-party reinsurance providers to take the risk.

As you've heard from me in the past, when we launch new programs, our economics are not optimized, and that's because you're bringing a new program to kind of that reinsurance market or risk capital provider community for the first time, and you can think about there being a similar dynamic here as we're bringing this program into the reinsurance market for the first time, and as a result, there's some conservatism in how people are going to look at expected losses. So long as we can continue to drive industry-leading results and improve overall loss cost over time, those economics have the opportunity to then grow once again over time, similar to the new programs that we launch.

Pablo Singzon

Got it, makes sense, and then the second question maybe for Brad. I think your cash flow guidance for the year, it used to $160 million to $195 million, right, and now you're saying $140 million or $150 million. Can you bridge the gap there, how much of it was 3Q and how much is 4Q, and how are you thinking about conversion in '25?

Brad Hale

It's a combination of 3Q and 4Q, I'd say, you could split it sort of half and half, Pablo, and it's really two drivers: one, the revised Adjusted EBITDA guidance, which is the starting point for how we calculate and communicate free cash flow; and the second being the fact that we took out an additional $100 million, opportunistically, when the bond markets were quite favorable and we launched our inaugural bond in May, and so that has resulted in a higher cash interest expense burden for the year, which is—those two are effectively getting you to our revised full year guidance.

Pablo Singzon

Okay, and then last for me, just a couple of clarifying questions on the rate and exposure comments. I guess, first, you talked about a construction book and some timing-related softness there. Are you counting that against the rate and exposure headwind? I think you said 4.7, right? so, I wasn't sure how you're sort of thinking about that negative this quarter.

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Trevor Baldwin

Yes, hey, Pablo. You can think about the kind of pushing out of job starts as being probably half of that negative impact on rate and exposure. The other, you can think about as being exposure being flat in the employee benefits business. If you normalize for those two factors, you bridge back to low-double-digits OG in IAS.

Pablo Singzon

Okay, and then as we think about '25, I think, Trevor, you mentioned that you're assuming—I'm not sure if it's flat or some headwinds for rate and exposure. What was that, or what are you assuming in terms of the shape of that curve? I think 4.7 is a pretty meaningful headwind. Does it better from '25, is it sort of the same? I'm not looking for specific numbers, but how should we think about the shape of that curve as you we through quarters? At some point, presumably, comps should get easier and all that stuff, but, yes, if you could talk through how that factor might swing results as we go through 4Q and '25?

Trevor Baldwin

Yes, hey, Pablo. A couple things. One, I'd say we're still a little far out to get into kind of specific shape of rate and exposure impacts quarter-by-quarter. We'll be prepared to talk more about that as we get back out here on our year-end call. Overall, you can think about kind of the glide path of that impact being most prominent in the beginning of the year, when these headwinds from 2024 were not as meaningful, and kind of gliding off over the balance of the year.

Pablo Singzon

Got it. Thank you.

Trevor Baldwin

Thanks, Pablo.

Now, as we bring the call to a close, I wanted to take a moment to reflect on our recent five-year anniversary as a listed company, which was a couple of weeks ago, and everything that has been accomplished over that time period.

I remember ringing the opening bell at NASDAQ's market site on October 24, 2019, and it feels both like yesterday and a distant memory all at once. In 2019, our debut year in the public markets, we were the first commercial insurance broker to IPO in over 20 years. We had less than 500 colleagues, total revenue of $138 million, Adjusted EBITDA of $29 million and adjusted diluted earnings per share of $0.27. We generated organic growth of 10%. We're very much a regional business. However, we had a clear vision of who we wanted to become and a strategy to get there.

Today, I sit here with immense pride for our team and colleagues across the country, as we have more than executed on the five-year vision we set forth at the time of our IPO. Across key business metrics, we have executed well, in many ways, beyond our own expectations. Today, we have just over 4,000 colleagues, a roughly 8x increase from five years ago, we have LTM revenues of $1.34 billion, a 10x increase, we have LTM Adjusted EBITDA of $295 million, a 10x increase, and we have LTM adjusted diluted earnings per share of $1.37, an increase of over 5x, resulting in a compound average growth rate of over 40% in our adjusted earnings per share since the IPO.

As proud and excited as I am for what we have accomplished over the last five years, I can easily say I am even more enthused for what lay ahead over the next five and the opportunities that abound.

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When we listed in 2019, we, in many ways, had burned the boats. Scale for us became existential to validate our ability to thrive as a public company. We had to move quickly to acquire scale, build our client capabilities across new markets and specialties, build out the infrastructure to responsibly operate the national public company we were rapidly becoming, all while maintaining and enhancing our industry-leading culture and status as a destination for leading talent. In many ways, as a result of the foundation we have laid, scale we have built, and strength and momentum of our underlying business fundamentals, our most challenging years of execution should be behind us.

Going forward, our focus remains on building the preeminent insurance and risk advisory solutions firm, what we refer to sometimes as the "broker of the future," and while the fundamentals of what got us here, namely, industry-leading talent and technology, will continue to be critical to our future success, certain of the priorities will evolve. For example, during the past five years, scale and achieving it was existential. Over the next five, operational rigor and efficient execution at scale is critical.

Today, I am more excited and confident about the future than I have ever been during our time as a public company. We have a platform that is well built and established. Investments needed for our next phase of growth are incremental, rather than the transformational investments made over the last five years to build and establish our baseline infrastructure. We have a margin profile that is far from mature, with no structural differences impeding our ability achieve peer-level margins, or greater, over time, providing a very clear and long runway of margin accretion ahead.

We have a business at scale that knows how to grow organically at outsized rates, realized through internally-driven net new business generation, which should result in durability to our outsized growth profile through insurance and economic cycles, and we are rapidly approaching a major milestone with less than two quarters until the vast majority of our remaining earnout liabilities will be settled. In the second quarter of 2025, and beyond, we expect a significant inflection in our free cash flow generation, continued reductions in our debt leverage, and continued industry-leading growth in our top and bottom line, all leading to a rapidly strengthening financial profile. At The Baldwin Group, I can say with pride and confidence our future is bright.

With that context, I thought it would be helpful for me to share the intermediate objectives we are rallying around internally. We have recently rolled out internally our intermediate term strategic plan with a top-level aspiration we refer to as 3B30 in 5. Specifically, our objective is to grow our business to $3 billion of revenue, achieve a 30% margin over, the next five years. To be clear, this is not guidance. We have always set internal goals for ourselves more aggressively than the expectations we set externally. As a result, you should not expect symmetry between the two. But, this is what our planning and priorities revolve around achieving internally. We are a competitive group. When we set goals for ourselves, we expect to achieve and exceed them.

In closing, I want to take a moment to thank our key stakeholders who have made the last five years possible. We have an amazing team of colleagues and leaders whose passion, grit and determination enabled the amazing results and accomplishments we have discussed today. I want to thank our clients, without whose continued adoption and loyalty our success would not be possible, the insurance company partners we trade with day-in and day-out, and the communities we live and work in and that have supported our success. I also want to thank our shareholders, many of whom have been with us since our IPO. Notably, among our public insurance broker peers, we rank at the high end of insider ownership, with over 40% of our Company owned by colleagues and partners.

While I recognize our journey has not been without twists and turns, trials and tribulations, I am incredibly proud of the results we have achieved thus far. Our story is far from over. Our future is bright. I can say to you with confidence our best days remain ahead.

Thank you, and we look forward to talking with you again on our year-end call.

Operator

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

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