



**The Baldwin Group**

**Fourth Quarter 2024 Earnings Call**

**February 25, 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

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

**Elyse Greenspan**, *Wells Fargo*

**Greg Peters**, *Raymond James*

**Pablo Singzon**, *JPMorgan*

**Tommy McJoynt**, *KBW*

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

### Operator

Greetings and welcome to Baldwin Group Fourth Quarter 2024 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 then 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 of Investor Relations. Thank you. You may begin.

### Bonnie Bishop

Thank you and welcome to the Baldwin Group's Fourth Quarter 2024 Earnings Call. Today's call is being recorded.

Fourth quarter and full year financial results, supplemental information and Form 10-K 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 to our most recent Form 10-K, 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 fourth quarter results reported earlier this afternoon. I am joined this afternoon by Brad Hale, Chief Financial Officer, and Bonnie Bishop, Executive Director of Investor Relations.

In 2024 we witnessed an amalgamation of forces and events that shaped the risk and insurance environment for our clients, insurance company partners, communities and firm. As we sit here today, California is beginning the long road to recovering and rebuilding in the wake of what will likely be the most destructive wildfire in history. This comes on the heels of one of the more active hurricane seasons we've experienced in some time with three major storms making landfall in Florida and causing meaningful damage across the East Coast.

These recent events serve as a stark reminder of the critical role insurance plays as a vital backstop to help individuals and businesses recover financially from the impact of unforeseen events while continuing to innovate, invest and thoughtfully navigate risk to create jobs and support economic growth, all of which is essential to continued human progress. Quite simply, our work in combination with our industry partners safeguards commerce and protects the possible for our clients.

I extend my profound admiration and appreciation to our colleagues who worked tirelessly during 2024 and are continuing to do so today, offering their expertise, advice and solutions to our clients as they navigate the aftermath of the California wildfires and spearhead the recovery efforts.

Turning to our results for the fourth quarter and for the year, for the fourth quarter organic revenue grew 19% with strong double-digit organic growth across all three segments, driven by record new business productivity in IAS and continued momentum in both MIS and UCTS. Adjusted EBITDA margin expanded 310 basis points in the quarter to 19%. For the year, despite continued volatility within both the insurance industry and broader economy, we once again delivered industry-leading organic revenue growth of 17%, supported by double-digit organic revenue growth across all three of our segments.

As I mentioned on our third quarter call, 2024 marked the five-year anniversary of our IPO. This year, with an intense focus on efficient execution and prudent expense management, we posted the most significant EBITDA margin expansion and adjusted free cash flow generation since our time as a public company. Adjusted EBITDA margin expanded 200 basis points to 22.5% and adjusted free cash flow grew to \$134.9 million. Net leverage declined to 4.1x, down from 4.8x at the beginning of the year. We are also pleased to announce that by the end of March the vast majority of our earnout obligations will be satisfied, marking a major milestone for the business and the beginning of the adjusted free cash flow inflection point we've anticipated. From there, we expect an acceleration in our delevering and a step function increase in our capital position and capital allocation flexibility.

For our IAS segment, overall organic revenue growth for the quarter was 16%, bringing the 2024 total to 10%. Organic core commissions and fees revenue was up 16% for the quarter and 11% for the year. We view this as particularly strong outcome in the face of a 510 basis point headwind and underlying rate and exposure compared to the full year 2023. For the full year 2024, rate and exposure only contributed 40 basis points to our overall organic growth versus 550 basis points in the prior year. Offsetting those external market-driven headwinds was our internally-driven new business production which set a new record at \$125 million and resulted in sales velocity of 21.5%, a 410 basis point improvement over the prior year. Sales velocity for the quarter was 23%, a 250 basis point improvement over the fourth quarter of last year. I have long held that organic growth is the leading measure of health and momentum of an insurance distribution firm as a result of what it says about the client outcomes and resulting top-of-mind preference for a firm's requisite services and solutions that are being delivered.

Sales velocity, as the most meaningful of the four building blocks of organic growth, speaks to the pure momentum in new client adoption relative to industry peers. At 21.5% sales velocity, we generated new client relationships and revenues at nearly double the rate of industry peers for which the median is roughly 11%, and a third more than the top 25% of our competitors at roughly 16%. Sales velocity, unlike rate and exposure, is entirely internally driven and creates sustainability and consistency to our organic growth profile throughout both economic and insurance market cycles. The growing momentum we have seen in our sales velocity across the IAS platform is a testament to the depth and breadth of client capabilities we have built over the past five years and how our integrated platform enables us to deliver the best of what Baldwin has to offer to our clients no matter where they reside.

Our UCTS segment had a fantastic fourth quarter with organic revenue growth of 25%. Our multifamily and home portfolios continue to scale, generating commissions and fees growth of 23% and 37%, respectively. For the year, UCTS organic revenue growth was 27%, an incredibly strong performance on the heels of 31% organic growth print in 2023 as the MGA finished the year with over \$1.1 billion in gross written premium.

Two months into 2025, we wanted to provide two updates related to our homeowners product suite. First, while California property represents less than 10% of our overall premium base in the MGA, our E&S homeowners portfolio has some exposure to the recent fires that will deliver losses to our reinsurance partners. While we do not directly bear any of the costs of those losses, it remains to be seen what impact the event will have on reinsurance pricing for wildfire more broadly, and what, if any impact that will have on terms and conditions in our June 1 reinsurance renewals.

Second, related to our builder sourced homeowners book with QBE, as anticipated we are pleased to confirm QBE's intent to continue supporting the program past May 1 as we work to accelerate moving the book off of QBE's paper to other capacity providers. To that end, in January we received formal approval and a certificate of authority from the Texas Department of Insurance to form and launch a Texas domiciled reciprocal insurance exchange focused on our builder book of business for which the MGA intends to serve as the attorney in fact. We are in the process of finalizing a third-party led capitalization of the reciprocal, ahead of beginning the right business into the reciprocal two to three months thereafter. The approval and forthcoming launch of our debut Baldwin-sponsored reciprocal exchange represents a meaningful milestone and our continued journey to vertically integrate across the value chain and bring innovative third-party risk capital platforms to market in support of more efficient risk transfer outcomes for our clients.

Our MIS segment delivered total organic revenue growth of 19% during the fourth quarter and 20% for the full year. These full-year results are particularly impressive considering the 820 basis point headwind we absorbed as a result of moderating rate and exposure tailwinds compared to 2023.

Importantly, we made meaningful strides in growing our reputation as the leading purveyor of embedded home insurance solutions, at point of new home sale and mortgage origination. Our Westwood franchise

onboarded six new builders in 2024 and now powers the home insurance experience for 18 of the top 25 homebuilders across the country. Additionally, after more than two years of technology build, we launched our debut digital embedded home insurance initiative in the mortgage, title and real estate brokerage channel, going live with this embedded solution for the first time with a mortgage partner in the fourth quarter.

Lastly, our Medicare business had a record annual enrollment period on the back of growth and contracted agents of over 20%. In addition to continued momentum and leading organic growth results, Adjusted EBITDA margin expanded 250 basis points as we continue to grow into the de novo investments across our mortgage and real estate channels.

In summary, we are pleased with the strong results for the year and in particular the recent quarter as we enter 2025 with growing momentum across our segments. Organic revenue growth of 17%, Adjusted EBITDA growth of 25%, adjusted earnings per share growth of 34%, and adjusted free cash flow growth of nearly 100% in 2024 are a testament to the quality of our colleagues and the strength of our client franchise which enables our ability to produce outsized organic growth with an even more meaningful flowthrough to earnings and cash flow.

While the insurance marketplace remains dynamic and challenging for many of our clients, the growing complexity of the risk and insurance landscape will continue to enure to the benefit of our vertically integrated franchise as it highlights the outsized value our teams continue to deliver, the innovative products, solutions and risk capital formations that uniquely and efficiently solve many of our clients' risks and uncertainties.

The strong validation we see from clients in the marketplace day in and day out as evidenced by our industry-leading sales velocity and organic growth further solidifies our confidence in the sustainability of our financial performance and continued ability to deliver outsized organic growth, ongoing margin accretion and expanded adjusted free cash flow well into the future.

As we have finally reached the post earnout inflection point on cash flow, we now have expanded opportunities to invest in attracting and retaining talent, developing products and solutions for our clients, and ongoing optimization of our operations, which will further enhance the sustainability of our operating model and our ability to deliver top and bottom line growth.

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 fourth quarter, we generated organic revenue growth of 19% and total revenue of \$329.9 million. Looking at the segment level, we generated organic revenue growth of 16% at IAS, 25% at UCTS and 19% at MIS. For the full year, organic revenue growth was 17% and total revenue was \$1.4 billion.

We recorded a GAAP net loss for the fourth quarter of \$348 million, or GAAP diluted loss per share of \$0.31. GAAP net loss for the full year was \$41.1 million, or \$0.39 per fully diluted share. Adjusted net income for the fourth quarter, which excludes share-based compensation, amortization and other one-time expenses, was \$32.1 million, or \$0.27 per fully diluted share. For the full year, adjusted net income was \$176.9 million or \$1.50 per fully diluted share. A table reconciling GAAP net income to adjusted net income can be found in our earnings release and our 10-K filed with the SEC.

Adjusted EBITDA for the fourth quarter rose 38% to \$63.2 million compared to \$45.6 million in the prior year period. Adjusting to eliminate the impact of the sale of Connected Risk Solutions in February of 2024, Adjusted EBITDA grew 42%.

Adjusted EBITDA margin expanded approximately 310 basis points year-over-year to 19.1% for the quarter compared to 16% in the prior year period. Adjusted EBITDA for the full year grew 25% over the prior year to \$312.5 million. Adjusted EBITDA margin for the full year was 22.5%, an expansion of 200 basis points year-over-year.

Adjusted free cash flow for the fourth quarter was \$16.9 million, a 328% increase year-over-year.

Net cash provided by operating activities in our statement of cash flows was \$102.2 million for the full year 2024 compared to \$44.6 million in 2023. Adjusted Free cash flow for the full year was \$134.9 million, an increase of 97% from the prior year. When adjusted for one-time third-party refinancing costs of \$14 million incurred during 2024, adjusted free cash flow was \$148.9 million.

In the fourth quarter we paid \$42.2 million of earnouts and cash inclusive of amounts reclassified to colleague earnout incentives. In February, we paid an additional \$25.6 million, bringing our total cash earnout spend over the past 14 months to \$163.3 million. As a result, our remaining estimated undiscounted earnout obligations have been reduced to approximately \$159.7 million as of today. By the end of the first quarter, we expect to have only approximately \$10 million of outstanding earnout obligations.

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 added back \$31.2 million of compensation expense in the fourth quarter associated with colleague earnout incentive payments.

As we wind down the last of our earnout payments for our 2021 partnerships, we want to direct investors to the 2021 partnership scorecard in our earnings supplement which highlights the meaningful value created across the 16 partnerships we completed in 2021. In aggregate, we paid 14.6x Adjusted EBITDA or 5x revenue up front. Three years later, after taking into account nearly \$240 million of post-closing contingent earnout payments, our aggregate all-in Adjusted EBITDA and revenue multiples sit at 8.9x and 3.3x, respectively as a result of outsized top and bottom line growth across the cohort. We continue to believe we have a unique and compelling M&A thesis and as leverage permits we will look to strategically and thoughtfully allocate excess capital to this strategy in a manner that enhances the long-term value to our stakeholders.

In the first quarter of 2025, we will be transitioning to a fiduciary reporting model for cash, accounts receivable and payables held or owed in a fiduciary capacity. This change is to reflect the nature of the accounts more appropriately on our balance sheet and reduce volatility in the cash flow from operations. On the balance sheet we will label them fiduciary assets and fiduciary liabilities. In the cash flow statement, changes in fiduciary cash will be presented within financing activities. Starting in the first quarter of 2025, we will present the prior periods on the same basis.

It is important to note that this will also change our definition of adjusted free cash flow from operations, which will no longer require the removal of the change in premiums, commissions and fees receivable or the change in accounts payable, accrued expenses and other liabilities. We expect this to introduce significant seasonality to our presentation of adjusted free cash flow from operations, resulting in minimal free cash flow in Q1 followed by a consistent stream of improved free cash flow in Quarters 2 through 4.

At the end of the fourth quarter, net leverage stood at 4.1x, a further reduction from the third quarter as we continue to make progress towards our goal of bringing net leverage back within our stated long-term range of 3x to 4x. We took advantage of favorable market conditions, increasing our term loan facility by \$100 million in January to prefund earnout obligations while also tightening pricing on our term loan facility by 25 basis points to terms SOFR plus 3%. We maintained our 25 basis point stepdown feature and expect pricing on our term loan to drop to term SOFR plus 2.75% when net leverage falls below 4x later this year.

For the first quarter of 2025, we expect revenue of \$410 million to \$420 million, and organic revenue growth towards the low end of our 10% to 15% long-term range, which contemplates an anticipated mid single digit organic growth rate for IAS as we result of timing of net new business. We expect IAS to deliver double-digit commissions and fees growth for the full year.

We anticipate Adjusted EBITDA for the quarter between \$110 million to \$115 million, and adjusted diluted EPS of \$0.62 to \$0.66 per share.

We expect net leverage to increase slightly in the first quarter given the incremental \$100 million we added to our Term Loan B, and the roughly \$175 million of anticipated earnout payments to be made during the quarter. But by the third quarter, we expect net leverage to fall below 4x for the first time since 2022.

To further expand on the high level 2025 guidance we provided on our last earnings call, we currently expense organic revenue growth in the lower half of our long-term 10% to 15% range, implying total revenue between \$1.52 billion and \$1.56 billion, and Adjusted EBITDA margin expansion in the lower half of the 25 to 100 basis point range we provided during the third quarter call, which would imply Adjusted EBITDA between \$345 million to \$360 million, both of which incorporate some uncertainty around potential impacts from the California wildfires on our 6/1 reinsurance renewals in the MGA. This contemplates full-year double-digit commission and fees growth for IAS, double-digit organic growth in UCTS and mid single-digit organic growth for MIS as a result of the one-time impact of replatforming our builder-sourced homeowners book of business from QBE to new capacity providers, including our newly-formed reciprocal exchange.

We expect adjusted free cash flow from operations of \$150 million to \$175 million, a conversion rate between 40% and 50% versus approximately 45% in 2024.

Lastly, we expect adjusted diluted earnings per share of \$1.70 to \$1.80.

In closing, we are pleased with our results for the quarter and for the full year. Our ability to deliver on our stated goals of sustaining double-digit organic growth, improving margin and reducing net leverage position us well for continued success in 2025 and beyond. With substantially all of our earnout obligations behind us, we have tremendous opportunity for accretive capital deployment that will benefit all of our stakeholders for the foreseeable future.

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, then one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star and then 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.

The first question we have is from Josh Shanker of Bank of America. Please go ahead.

**Josh Shanker**

Thank you very much for taking my question. Good afternoon everybody.

I wanted to talk about contingent and earnout opportunity. The first one, obviously to incentivize your producers around the acquisitions you made over the past few years you not only paid contingents out to principals who joined you when you acquired but also their producers. I'm curious if you say as we reach the end of the earnout period, are there sales inducements that you plan to include and call producer earnout contingents or whatnot going forward, or is that a one-time thing associated with the acquisition and we're not going to see that going forward as well?

**Trevor Baldwin**

Hey Josh, this is Trevor. Let me just make sure I'm understanding your question accurately. You used language we paid contingents to producers and I'm assuming you don't mean like contingent income from insurance companies because that was not paid.

**Josh Shanker**

No, no, no. (Inaudible) earnout incentives essentially.

**Trevor Baldwin**

Right, yes. So the colleague incentive pools, I'd say those were spread broadly across colleagues in certain partnership entities and not necessarily specifically pointed at producers. Those were entirely at the discretion of the selling shareholders of the acquired businesses, and so we actually were not involved in how those funds were directed or allocated.

What I can tell you is that those will not reappear in the future. That is, those colleague earnout incentive payments are just taking what was otherwise earnout payments due to selling shareholders and paying them to certain colleagues as designated by the selling shareholders rather than to the selling shareholders directly.

Now, if I'm maybe inferring a little bit into your question, which I would suppose is, "Hey, it looks like you could have been incentivizing some of this outsized sales performance via these colleague earnout incentive payments, and what does that mean relative to kind of the sales and new business performance in the organization going forward?"

I would just point you, as an example, to two of our regions and the IAS business, our West region and our Southwest region, both of which came out of earnout at the end of 2023, and so did not have any kind of earnout incentives in play during 2024. Despite that, 2024 was by a wide margin the best organic growth year for each of those regions since they've joined us.

Is that helpful context?

**Josh Shanker**

You're a bit of a mind reader there, you know? That's sort of what I'm getting at, exactly. And that's some good color there.

I just also wanted to catch up on the change in the fair value of the contingent consideration. Obviously we tend to reverse that out. It was largely negative in this quarter but I think some of the moving pieces involved

the contingent—the colleague earnout incentives. I think the pool was taken out of the change in fair value contingent consideration and moved to the colleague earnout incentives in the quarter. Is that how that works?

**Brad Hale**

That's exactly how it works, Josh. As Trevor articulated, these are not incremental payments to the earnout we've been calculating all along. It's just a redirecting of those payments from selling owners to non-selling owners, and when we do that it is a reclass out of that change in fair value of contingent consideration to this colleague incentive line. So the negative result you're seeing is directly the result of pulling that non-selling shareholder amount into a separate line.

**Josh Shanker**

That's great. Then finally, you're right to point out that the story change in 2025 is the earnouts are finished and the cash flow starts coming through. I realize that you are a very enterprising organization and you've been hoping for this moment for a while. If you were to engage in M&A, that changes the story a little bit and we may not get to see the cash flow as well. I assume you have an appetite for things but you also want to demonstrate the cash flow generating nature of the businesses. How do you weigh the signalling to show the cash flow generation versus your desire to find other things in the market that might suit you?

**Trevor Baldwin**

Great question, Josh. First what I would tell you is our number one priority is continuing to delever the balance sheet and strengthen our financial position over the near term into our long-term range of 3x to 4x. Second, I would tell you as you can look at the results and the earnings supplement where we detail the performance of the businesses acquired during 2021, we feel like we've done a really nice job of allocating capital and driven spectacular results for our shareholders through the deployment of that capital, as evidenced by how much the multiple has been bought down over our three-year ownership time period.

Looking forward, we believe M&A will be a lever that we will continue to opportunistically pull and we look forward to a time that is quickly approaching where we will have excess capital to do that. I would tell you, you should continue to expect the same level of discernment and an incredibly tight filter around the type of M&A we're going to do, both qualitatively and quantitatively to ensure that there's strong alignment, great financial outcomes and real value add.

From a cash flow perspective, we're very much looking for and expect to show and prove to our shareholders and the Street broadly the significant free cash flow potential of our enterprise as evidenced by free cash flow from operations that this business will begin and continue to spin off in evergrowing quantum.

So, you know, to wrap it up I'd say we're in a great position. We have a business that's growing top line in an industry-leading manner on an organic basis. We have a really attractive margin accretion story for the foreseeable future and I provide some more context and color around that in our Annual Letter this year, so if you haven't seen that yet I would point you to that on our IR website.

Then, we have growing capital positions and capital allocation flexibility as a result of that financial performance. The next five years for our organization are going to be an exceptional five years and while the last five years since our IPO have been quite remarkable, I am more excited for the next.

**Josh Shanker**

Thank you very much.

**Operator**

The next question we have is from Elyse Greenspan of Wells Fargo. Please go ahead.

**Elyse Greenspan**

Hi. Thanks. Good evening. My first question is just on, I guess on IAS—I guess it's multipart, right? Growth was strong to end the year and then you guys are pointing to lower growth in the Q1 due to the timing of new business. If you could just expand on that.

Then for the full year you said double-digit commission and fee growth for IAS. Given that there's no M&A, would that be representative of your organic outlook, or is there some other adjustment that we need to think about between the two?

**Trevor Baldwin**

Hey Elyse, this is Trevor. To start, the momentum in our IAS business is incredibly strong, as evidenced by industry-leading sales velocity that I detailed earlier in the call, and we don't anticipate that momentum ebbing. The callout to Q1 is just specific timing nuances. Just the nature of the business is you will see some variability in overall organic growth quarter to quarter, and we don't want people to be surprised or unnecessarily read into that, and so we're just managing those expectations.

Our expectation for double-digit commission and fees growth for the year is a readthrough to organic growth. I would just say you would likely sense a hint of cautiousness around growth in contingents as two weeks into the year we saw what will likely end up being a top 3 catastrophe loss for the industry with the California wildfires. So as you think about the implications to overall loss costs over the course of the year, there could be some impacts but it's frankly just too early to tell.

**Elyse Greenspan**

Then you guys on your last call, right, had said that there was a \$10 million to \$15 million negative EBITDA impact, right, expected this year from the QBE and just arranging the reinsurance cover. It sounds like with the reciprocal there's more going on there, and so is that still the expected impact, or is there some uncertainty there, right, that it might be more? Is that embedded in being at the low end of the margin guide for the year?

**Trevor Baldwin**

Yes, so a few things. I'll just kind of try and quickly run through them.

We're pleased to have shared that as expected QBE has signaled its intent and entered into a new agreement with us to continue supporting the builder-sourced book of business beyond 5/1. Part of that agreement will result in us not needing to help them with arranging third-party reinsurance in exchange for which we are taking a reduction in overall gross commissions consistent with that \$10 million to \$15 million impact that you heard from us on the Q3 call, but fixing that so no kind of variability beyond that of sorts. We're incredibly excited about the reciprocal exchange that we're in the process of starting up and how that will provide an innovative long-term source of capacity for us to continue growing the builder book over time, and over time we also anticipate that that reciprocal will provide for overall gross economics more consistent with the historical economics we had for QBE.

Importantly, it will take some time for that to earn-in and so we wouldn't expect to be back to those levels fully until 2026 or 2027. That is all contemplated in the guide that you heard.

Additionally to that, as you also heard us reference, we have built in some conservatism and cautiousness as a result of uncertainty related to the broader impacts of the California wildfires on reinsurance pricing for the upcoming June 1 renewals.

To provide some context, our MGA finished last year at about \$1.1 billion of gross written premiums. We had two E&S homeowners programs who will be impacted by the fires that are just under 20% of that overall premium, and of which about 15% of the 20% is associated with California business.

As we think about the context of the loss here and the headwinds that we're citing, it's predominantly a market-driven event. When you look at the current industry estimates of somewhere between \$30 billion and \$50 billion, if you take the upper range there, this is tracking to be a top 3 catastrophe loss event of all-time that occurred in the first two weeks of the year on what the reinsurance market has historically considered to be a secondary peril and for which a loss that will be much more heavily absorbed by the reinsurance market than, say, a Florida hurricane would.

So, while our California exposure overall is in line with expectations for both programs, I'd say it remains to be seen how reinsurance pricing for the market more broadly shakes out, and to the extent it goes up, that could put pressure on our gross commission rates for those two programs on the June 1 renewal.

To be explicit, we do not have any specific sizing around what that impact could or couldn't be, and there's a world where you take adequate rate on a primary basis to fully absorb it, and there's also a world where there's cost increases that are passed through and that have temporary impacts. So this is just us wanting to be transparent and conservative and cautious around how we're managing the expectations going forward.

**Elyse Greenspan**

I appreciate the color. I guess one last one, just while I'm thinking about it correctly. Given that this is all geared towards the second half of the year with the reinsurance and the QBE, within your guide, are you expecting greater margin improvement in the first half of the year and then less in the back half? Or am I missing something in that kind of high level thought?

**Trevor Baldwin**

At a very high level that's accurate, Elyse.

**Elyse Greenspan**

Okay. Thank you.

**Trevor Baldwin**

Thanks.

**Operator**

The next question is from Greg Peters of Raymond James. Please go ahead.

**Greg Peters**

Good afternoon. Just following up on that last comment, Trevor, with more costs because of the reinsurance potential changes beginning with your renewal, does that mean that here's going to be headwinds in the first half of next year up until the next renewal cycle? I'm talking about '26.

**Trevor Baldwin**

Yes. I mean, these are all hypotheticals right now, Greg, but hypothetically, if we absorbed increased costs associated with the reinsurance and some of these programs, that pressure would be for a full 12 months.

**Greg Peters**

This is in the E&S market, so that's free of rate and form. Why wouldn't that cost be passed along to the policyholder?

**Trevor Baldwin**

There's a world where it could.

**Greg Peters**

(Inaudible). In your comments, there's two other things: you talked about how you're going to be restating free cash flow and moving some pieces around, and you gave us some guidance around how the numbers are going to look on a quarterly basis, and I'm wondering if you have that, what the adjusted—on this new format, the adjusted number was for the full year '24 so we can use that as a benchmark as we build out our numbers for '25 and '26?

**Brad Hale**

We haven't disclosed that yet, Greg. What I will say is obviously when we report each of the quarters it will be on a comparable basis and we'll walk that bridge as well in our earnings supplement.

**Greg Peters**

Just to follow-up, I mean, from a big picture perspective, does the adjusted adjustments, how does that directionally? Does that move free cash flow down for you guys for '24 versus what you've reported? Or ...

**Brad Hale**

It likely moves it down to some extent, Greg, because you're pulling out any increase in trust cash, which previously would have been mixed with your overall operating cash increase, so when you're pulling fiduciary—as the business is scaling, in theory, right, your fiduciary assets are scaling as well. So it would—I would expect the base for '24 to be lower than how we were previously calculating it under the old methodology.

**Greg Peters**

Okay. Finally, going back to comments you made at the outset of the call, and I know there was some previous comments on this in answer to some of the questions. You said an acceleration in deleveraging post the last earnout, and in the last quarterly call I think you made a statement that you weren't expecting to do any M&A in '25. It seems like there might be a slight shift in that thinking, but I don't want to try—read into too much what you're saying, but I guess related to this topic is, would you consider going above 4x

debt leverage again if the right opportunity came along? Because you've talked about the 3x to 4x target range.

**Trevor Baldwin**

Hey Greg, this is Trevor. One, we will not consider going above 4x in the foreseeable future. Two, I would not model any M&A in 2025. Our primary focus over the near term is continuing to strengthen our balance sheet.

**Greg Peters**

Thank you for your answers.

**Trevor Baldwin**

Thanks, Greg.

**Operator**

The next question we have is from Pablo Singzon of JPMorgan. Please go ahead.

**Pablo Singzon**

Hi. Good evening. First question: could you please bridge the gap between the EBITDA outlook you gave for '25? I believe it was \$345 million to \$360 million—and the cash flow number, right? That's about, I think about 200 variance, right? I guess half of that is interest expense, and if you could speak to what the other half is? Thank you.

**Brad Hale**

I would say a significant portion of that is interest expense; I'd say even larger than a half. We do anticipate while they've been declining meaningfully over the last year, that we would still have some form of continued cash addbacks for one-time items that pop up. Then the last is as the business scales, you know, we're always facing some headwind in working capital, particularly with respect to receivables we book on direct bill policies for which the cash is typically received over a 12-month period, as well as receivables on contingent income for which the cash is received typically in the subsequent year. So, we build in some cushion per se for the continued scaling of the business that would present some of that working capital headwind.

**Pablo Singzon**

Got you. Then another cash question. I think your CapEx this year is running close to 40 or a little over 40? Would that be a good run rate to think about for next year? Or were there certain investments that you made this year that might not recur in '25?

**Brad Hale**

That would be a good run rate to think about in terms of next year. The primary driver of that is internal use software as we continue to build out certain technological capabilities, particularly in the embedded channel, as Trevor mentioned, as we're launching some of those relationships in real-time.

**Pablo Singzon**

Got you. Then last question, maybe for Trevor. Trevor, is your (inaudible) the rate of exposure headwinds that you saw in IAS will be fully lapped in '25, or do you think there's some more pressure there coming down the road? Thank you.

**Trevor Baldwin**

I don't anticipate the same headwinds in 2025 from having rate and exposure. The full year impact was relatively modest. If anything, I think there could be some tailwinds there depending on what happens with the economy and how rate reacts in the context of some of the large cat losses we've seen over the past couple of months.

**Pablo Singzon**

Thank you.

**Trevor Baldwin**

Thanks, Pablo.

**Operator**

The next question we have is from Tommy McJoynt of KBW. Please go ahead.

**Tommy McJoynt**

Hey, good evening guys. A question on the middle market landscape. It was a pretty active year of deals and consolidation in the space last year. Have you sensed that the competition in that space is in any way reinvigorated under new ownership, or have those deals led to maybe talent becoming available to hire? What is your sense there?

**Trevor Baldwin**

Yes, so I'd say we're seeing definitely a real evolution in the M&A marketplace, Tommy, in the middle market space where many of the kind of private equity-backed consolidators that drove the preponderance of the M&A activity for the past 5 to 10 years have largely slowed down as they've begun kind of to be more inwardly focused on catching up from an integration and operating tempo perspective. Many of the large public companies who have advantaged capital positions today and I think certainly robust currencies have become more active. I think we will continue to see more large deals get done, whether it be with large public strategics or more peer-to-peer style mergers of opportunity.

There's still some really high quality kind of tuck-in and midsize opportunities and that's really where we're going to spend the preponderance of our time as we begin thinking about turning the M&A engine back on towards the end of this year, heading into 2026.

We look forward to being able to exercise that lever and really, you know, return to driving a ton of shareholder value creation as you've seen evidenced in both the 2020 and 2021 classes of M&A that we've done and reported on.

From a talent perspective, I would say we are in an incredibly privileged position. We are seeing significant upticks and proactive inbound activity relative to experienced insurance professionals who are beginning to experience some disruption on many of these legacy M&A roll-up style platforms who have begun the

hard work of integrating those organizations in preparation for future capital markets activity. And as such, many of these professionals who are experiencing that disruption are taking the opportunity to ask the question of themselves, “If I’m going to experience a ton of disruption and a bunch of change, I should probably re-evaluate whether or not this is the right platform for me to build the most rewarding and impactful career that I can,” and fortunately, we’ve carved out a reputation for ourselves as a destination where the very best industry professionals can come to deliver very strong outcomes for their clients, have a lot of fun and build a rewarding career. So I think that will be a growing source of opportunity for us and it has already begun contributing as we think about the results in 2025.

**Tommy McJoynt**

Great. Thanks, Trevor.

**Trevor Baldwin**

Thanks, Tommy.

**Operator**

At this time, there are no further questions and I would like to turn the floor back over to Trevor Baldwin for any closing remarks

**Trevor Baldwin**

Thank you. 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**

This concludes today’s conference. Thank you for joining us. You may now disconnect your line.