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BRP Group, Inc.

Third Quarter 2023 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*

Kris Wiebeck, *Chief Strategy Officer*

CONFERENCE CALL PARTICIPANTS

Sidney Schultz, *Raymond James*

Elyse Greenspan, *Wells Fargo*

Yaron Kinar, *Jefferies Group, LLC*

Josh Shanker, *Bank of America*

Pablo Singzon, *JPMorgan*

Meyer Shields, *KBW*

PRESENTATION

Operator

Greetings, and welcome to the BRP Group, Inc. Third Quarter 2023 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator instructions) As a reminder, this conference is being recorded.

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

Bonnie Bishop

Thank you, Operator. Welcome to the BRP Group's Third Quarter 2023 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.baldwinriskpartners.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-Q, both of which are available on the BRP 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.baldwinriskpartners.com.

I will now turn the call over to Trevor Baldwin, CEO of BRP Group.

Trevor Baldwin

Good afternoon, and thank you for joining our Third Quarter Earnings Call.

I am joined this afternoon by Brad Hale our Chief Financial Officer, Kris Wiebeck our Chief Strategy Officer, and Bonnie Bishop, Executive Director of Investor Relations.

The robust underlying health, momentum and operating leverage in our business was evident in this quarter's results, as we generated organic growth of 19% and approximately 480 basis points of margin accretion versus the third quarter of 2022, on the back of continued execution, growing contribution from prior investments and ongoing efforts to drive greater free cash flow from the business.

Adjusted diluted earnings per share was $0.29, up 61% from the third quarter of 2022, Adjusted EBITDA grew 53% to $64 million, resulting in an adjusted EBITDA margin of 21% for the quarter, and free cash flow from operations grew by 29% to $76 million for the year-to-date period despite a $36 million increase in cash paid for interest year-over-year. Additionally, as a result of the growth in Adjusted EBITDA during the quarter, leverage now sits at approximately 4.8 times, representing meaningful progress over the last 12 months toward our goal of rapidly reducing leverage.

From an operating segment perspective, in Insurance Advisory Solutions, we generated organic growth of 11%. In the quarter, we saw increased client sensitivity to the significant insurance rate increases they have faced over the last two years, and we've experienced softer new business from project-related work in interest rate-sensitive areas, like construction and mergers and acquisitions. In other sectors where we have a significant presence, such as healthcare, we are seeing far less impact, and, overall, solid new business trends continue to drive outsized organic growth for our IAS platform relative to our peers.

In August, we added a fourth Center of Excellence to our IAS platform. Our new International Center of Excellence leverages our deep expertise to provide risk advisory and insurance solutions to clients with international operations and those exploring international expansion. The addition of this important capability enhances our overall value proposition to multinational businesses and, along with increased levels of specialization from the launch of other centers of excellence and industry practice groups, meaningfully expands the aperture of opportunities our Risk Advisors can confidently pursue.

Underwriting, Capacity and Technology Solutions grew 25% organically during the quarter, with strong performance from the MGA of the Future platform, which grew 29%, and achieved record new business for the renters product line in July, typically the seasonally strongest month of the year. Homeowners also continues to exceed expectations, with premium from our E&S and non-builder Admitted products up over 200% from the third quarter of 2022. We also launched two new products during the quarter, High Net Worth Home and Commercial Property, both of which are starting to gain momentum. The significant investments we have made in UCTS over the past 24 months are continuing to drive further diversification and new revenue streams into the MGA, which we expect will drive durable and profitable growth long into the future.

Mainstreet Insurance Solutions delivered organic growth of 29%, driven by strong results in both the legacy Mainstreet business and Westwood. Despite some pressure in the housing market due to mortgage rates, new home sales have been resilient, and we continue to see strong attachment and insurance rate pull through at Westwood. Additionally, the Mainstreet Team has shown tremendous grit in navigating very challenging personal lines markets in large states, such as Florida, Texas and California, where the personal lines insurance space continues to see significant rate increases.

We continue to be focused on de-levering our balance sheet and on expanding margin across the business. To support those goals, and enabled by the completion of our partnership integration work, we have begun executing on organizational alignment and cost savings initiatives aimed at rationalizing and simplifying our growth services support structure to more fully align with our distinct go-to-market models and enable more nimble and effective client execution. We expect that these initiatives will provide greater operational efficiency and accelerate margin expansion and free cash flow growth beginning in 2024, and more fully into 2025.

On October 17, we announced the launch of Juniper Re, our new reinsurance broking platform. Juniper Re is a natural complement to our retail brokerage and MGA business and helps round out our capabilities as a full-service broker. Juniper Re will be led by reinsurance broking veteran Jeff Irvan, who has more than 25 years of global reinsurance broking experience. Reinsurance brokerage is a capability we have long had on our strategic roadmap because of its superior financial returns and integral position in the insurance ecosystem, and we jumped at the opportunity to launch this with a seasoned leader and team. We expect Juniper Re will begin contributing to revenue as early as the first quarter of 2024.

Lastly, we announced in our 10-Q that Kris Wiebeck, our Chief Strategy Officer and former Chief Financial Officer, and John Valentine, our Chief Partnership Officer, will be retiring at the end of this year. Kris will step down from our Board as part of his retirement. Their retirements align with a strategic roadmap that has been in place for a long period of time and included achieving our first set of post-IPO goals related to the scale and maturity of our business. Kris and John have made enormous contributions to BRP and have mentored scores of colleagues who are now key contributors. On behalf of BRP, I'd like to thank Kris and John for their tireless work through the years in building BRP from a small, Tampa-based agency to the national firm that it is today.

In summary, and as this quarter's results once again proved out, BRP remains a diversified, well-balanced business that is built to perform and deliver industry-leading growth through the various economic and industry rate cycles. As you saw this quarter, our business has meaningful operating leverage, and as we continue to earn into the past investments and maintain our committed focus on targeted expense efficiency actions, we expect margins will continue to expand meaningfully over time.

I'd like to thank our colleagues for their tenacious efforts to deliver innovative solutions for our clients, helping them navigate a challenging insurance marketplace. I also want to thank our clients for their continued trust and confidence in us.

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 third quarter, we generated organic revenue growth of 19% and $306 million of total revenue. As Trevor mentioned, we generated organic growth in the quarter of 11% at IAS, 25% at UCTS and 29% at MIS.

We recorded a GAAP net loss for the third quarter of $32 million, or GAAP diluted loss per share of $0.29. Adjusted net income for the third quarter, which excludes share-based compensation, amortization and other one-time expenses, was $33.8 million, or $0.29 per fully diluted share. A table reconciling GAAP net loss to adjusted net income can be found in our earnings release and our 10-Q filed with the SEC.

Adjusted EBITDA for the third quarter rose 53% to $64 million, compared to $41.9 million in the prior year period. Adjusted EBITDA margin was 21% for the quarter, compared to 16% in the prior year period. This margin expansion highlights the significant operating leverage that exists in our business, which we've achieved through our continued organic growth against the backdrop of our ongoing absorption of prior year investments, which continue to earn-in and perform as expected.

Additionally, as Trevor mentioned, we have begun executing on organizational alignment and cost savings initiatives aimed at the rationalization and simplification of our growth services support structure to more fully align with our go-to-market approach and drive enhanced client execution. Specifically, we expect a $10 million in-year benefit from these initiatives in 2024.

In the third quarter, we paid $36 million in earnouts, and our remaining estimated undiscounted earnout obligations total approximately $332 million. In September, we opportunistically executed a fungible add-on to our Term Loan B, with proceeds used to pay down our revolver, leaving us with approximately $270 million of capacity on our $600 million revolving credit facility.

After Q1 2025, when we have finished paying the vast majority of our earnouts, we expect significantly higher free cash flow generation and the potential for more rapid de-levering. As Trevor stated, de-levering is a critical component to increasing free cash flow, and we remain committed to doing so. We expect our net leverage will continue to decrease through the end of 2023, and our goal is to de-lever to 4 times by the end of 2024, a target which includes 2024 estimated earnout payments of approximately $135 million. In addition, given the current interest rate environment, we are adjusting our target net leverage range to 3 to 4 times, down from 3.5 to 4.5 times, which implies incremental deleveraging into 2025.

For the fourth quarter of 2023, we expect revenue of $275 million to $285 million, organic growth of 12% to 14%, and Adjusted EBITDA between $40 million and $45 million and Adjusted EPS of $0.10 to $0.12 per share, bringing expectations for the full year of 2023 to revenue of $1.21 billion to $1.22 billion, organic growth of high-teens, and Adjusted EBITDA of $245 million to $250 million. The update to our prior full year guidance is primarily a result of start-up costs related to the launch of Juniper Re, a conservative view towards loss ratio sensitive contingents, and the continuation of lower project-based insurance revenue in IAS which began to manifest in Q3.

We expect Q4 to include compensation expense for portions of our maturing earnouts that the prior shareholders, at their full discretion, allocate to non-shareholders of the previously sold businesses. This is an accounting nuance whereby only prior owners can receive portions of the earnout that would be characterized as consideration for the business acquired. This expense, if applicable, will be a direct offset to the change in contingent consideration and neutral to the Q4 income statement. We are highlighting the matter because any compensation charge related to this will be included in our reconciliation of net income to Adjusted EBITDA, so that the impact on Adjusted EBITDA is also net neutral. For partners whose earnout matures in Q4, the compensation expense is a maximum of $15 million, subject to the full discretion of the former shareholders.

Given that we are not hosting an Investor Day in late November, as we had last year, we are sharing an initial view for 2024 financial expectations. We expect revenue of $1.38 billion to $1.42 billion, which implies organic growth towards the upper end of our long-term range of 10% to 15%, Adjusted EBITDA of $320 million to $335 million, and expected free cash flow from operations of $170 million to $200 million.

In closing, I would echo Trevor's comments regarding the state of our business heading into 2024, and beyond. The capital we have prudently allocated into our operating groups over the last three years has positioned us for continued outsized growth at scale and to more meaningfully drive margin accretion, free cash flow expansion and continued deleveraging.

We will now take questions. Operator?

Operator

Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. (Operator instructions)

Our first question comes from the line of Greg Peters with Raymond James. Please proceed with your question.

Sidney Schultz

Hey, this is Sid on for Greg. We've heard some stress in the PE-backed rollups with higher interest costs and earnouts, so hoping you could provide an update on what you're seeing in the M&A market.

Trevor Baldwin

Yes, hey, Sid, this is Trevor. What I would say is M&A volume is down substantially. The buyer mix has shifted, with the large, lowly levered, publicly traded buyers, such as Arthur J. Gallagher, really being able to take advantage of the current dynamic. I'd say we definitely have noticed a number sponsor-backed peers who have chosen to take on pretty expensive synthetic capital in the form of preferreds that have kind of high-teens to low-20s all-in costs associated with them. What I'd say is that it's kind of unclear to me the corporate finance logic behind deploying that capital into M&A at double-digit multiples, which is where deals are still transacting at. So, from our perspective, based on where the M&A market is today, where the cost to capital is, our best use of proceeds is continuing to focus on de-levering the business and investing in our continued outsized organic growth.

We think there's a chance, to the extent rates stay higher for longer, that the stress amongst some of the more highly levered private brokers will become more pronounced and it will create accelerated opportunities for us to attract really top-tier talent, and I'd say we've seen a little bit of that transpire already this year, with several teams of really kind of high-capability and unique industry sectors coming over and bring terrific expertise and driving real momentum for us.

Sidney Schultz

Okay, yes, got that, and then I wanted to pivot to your Homeowners-related products. I know you talked about some stress in the personal lines markets in some of the larger states, but hoping you could talk more about what you're seeing there, and then, also, how you've been able to navigate the dislocations in those markets.

Trevor Baldwin

I think it's not a surprise to anybody the personal lines market, particularly in the Homeowners side, around CAT-exposed states, such as Florida, Texas, California, are experiencing significant pressure, both from a pricing and capacity standpoint, and so our teams are doing incredible work helping our clients navigate those challenging marketplaces and sourcing capacity to solve their challenges. I think, in particular, this is where our MGA of the Future platform creates a real competitive advantage via our ability to build proprietary products, source capacity directly from the reinsurance markets and bring that much needed capacity to market, solving those challenges for our clients.

As I mentioned earlier in the call, our non-builder Admitted and E&S home products, which we launched at the beginning of last year, were up 200% in premium for the quarter. We continue to see fantastic momentum and uptake, and we're very excited about the continued trajectory we're seeing there. Not only is it a really terrific growth driver for the MGA business, but it also provides much needed capacity in our Mainstreet business and gives us the ability to go to both builder and mortgage channel partners with a unique value proposition of being able to deliver capacity that is very scarce in the marketplace.

Sidney Schultz

All right, thanks for the answers.

Trevor Baldwin

Thank you.

Operator

Our next question comes from the line of Elsye Greenspan with Wells Fargo. Please proceed with your question.

Elsye Greenspan

Hi, thanks. Good evening. For my first question, within Insurance Advisory Solutions, you guys highlighted some headwinds. I think, Trevor, you called out construction and M&A slowdown. Can you just give us a greater sense of how impactful that was in the quarter in terms of organic growth in that business, and then what are you expecting from organic growth within IAS in the fourth quarter, as well as in the guide that you guys gave us for 2024?

Trevor Baldwin

Yes, hey, good evening, Elyse, happy to. So, a few things. One, in the IAS segment, is we looked at the pressure we saw from interest rate-sensitive, project-based revenue, such as construction, we definitely had noticeable pullback. The rough impact is about 300 basis points to organic growth for the segment. If you exclude the impact of the pullback in project-related revenue tied to construction, the IAS segment would have grown about 14% organically. We are carrying forward, via kind of a conservative view, a similar impact into our expectation for the fourth quarter and full year of 2024.

What I would also say, though, is that doesn't really tell the whole picture. When you look at our construction practice more broadly, we are winning new clients at a record rate for our business, and the underlying momentum we are continuing to see in new business is very encouraging. I don't want to leave you concerned that we're overly concerned around the trajectory and momentum. In fact, I'd say it's the opposite. This is the entire thesis around our business, that I think we've talked about from the very beginning, which is we're building a business capable of growing double-digits through the cycle, and despite the weakness in certain and select pockets, because of the strength in new business and the overall momentum, we're able to power through that with continued double-digit growth.

Elyse Greenspan

Okay, and then in terms of the—when you're talking about your guidance for next year, it seems like you're not including any M&A within that $1.3 billion to $1.42 billion revenue guide, correct me if I'm wrong, and if that's the assumption, would 2025 be when you guys would expect to return to M&A activity?

Trevor Baldwin

Yes, Elyse, that's correct, we don't expect any meaningful M&A activity in 2024. As you heard Brad outline, we're adjusting our leverage policy down, from 3.5 to 4.5 to 3 to 4. We expect, via the nearly 100% growth in free cash flow, as well as the 300 basis points of expected Adjusted EBITDA margin expansion, that we're going to rapidly de-lever the business next year, while continuing to satisfy the earnout liabilities, so we expect to be able to de-lever by a full turn, and that kind of has us entering into 2025 as a very different business than where we sit today, from both a free cash flow potential perspective, a leverage perspective, and that creates a ton of capital flexibility for us at that time, but for the time being, based on where the cost to capital is, we believe it's prudent to focus our efforts on continuing to expand margin and de-lever the business through 2024.

Elyse Greenspan

Then, I just want to—I guess last question. I think you mentioned, from the savings effort, there should be about a $10 million in-year benefit in '24. I just want to verify that number. Then, it seems like with your guidance, you're assuming around 300 basis points of margin improvement next year. Is that what you guys are expecting there, as well?

Trevor Baldwin

Yes, the $10 million is correct, Elyse, and we are expecting about 300 basis points of margin accretion next year.

Elyse Greenspan

Okay, thank you.

Trevor Baldwin

Thank you.

Operator

Our next question comes from the line of Yaron Kinar with Jefferies. Please proceed with your question.

Yaron Kinar

Thank you. Good afternoon or good evening. I wanted to dig in a little deeper into the Juniper Re initiative. I guess what I'm trying to get to here is—from my understanding, building a reinsurance broker can be challenging, especially when you need pretty significant scale, so how are you thinking about that and do you believe that it can be earnings- or EPS-accretive in short order, despite what could be a significant investment in the platform?

Trevor Baldwin

Yes, hey, Yaron, great question. We're very excited about the launch of Juniper Re. As I mentioned earlier, we have long had in our strategic roadmap the reinsurance broking capabilities as a result of both of its superior financial returns, but also the integral role it plays in the insurance value chain, so there's an immense amount of strategic value to us having that capability added in amongst our retail broking and MGA capabilities.

As we think about the payback period here, we think it's going to be relatively short, and there's a few reasons for that, but, one, Jeff Irvan, 25-year veteran, deep relationships, is building a world-class team, and so they come with built-in relationships, and they've done this before, so they're not having to learn how to do it again. Second, we have significant relationships across our business that yield real reinsurance broking revenues that we believe we'll be able to take advantage of, and so while we do believe that this will be a negative EBITDA business for us in 2024, we have line of sight to it being EPS-accretive and cash flow positive in 2025, and that's roughly how we're thinking about it, which is a very rapid payback period for an endeavor of this nature, as you mentioned.

Yaron Kinar

Yes, definitely, and are you looking at targeting specific slices of the reinsurance market with this? I'm assuming that—or maybe I shouldn't assume this, but will you be going after smaller scale reinsurers or will you be going after some of the large multinational accounts, as well?

Trevor Baldwin

Yes, I'd say, initially, we're going to be focused on kind of specialty treaty business out the gate, where we've got deep expertise around CAT property programs, to say the least, but we envision kind of the strategic expansion of broad capabilities and specialization that serve all major segments in this market over time.

Yaron Kinar

Okay. One final one. Is Juniper Re going to be in one of the existing segments or will you be carving out a separate segment for it?

Trevor Baldwin

It will be in the UCTS segment.

Yaron Kinar

Okay, thank you.

Trevor Baldwin

Thank you.

Operator

Our next question comes from the line of Josh Shanker with Bank of America. Please proceed with your question.

Josh Shanker

Yes, you know, look, people make life changes and I'd like to know a little bit more about them. I mean, Kris and John are pretty young guys. Can you talk a little about what you said was a long time in the works, their plans to depart the Company, so we can understand how that proceeded?

Trevor Baldwin

Hey, Josh. So, Kris is actually here with me, so happy to have him chime in, as well, but when we took the Company public, Kris and John and I, about a week-and-a-half before that, were at an industry event sponsored by the Council of Insurance Agents and Brokers, called the Insurance Leadership Forum. It's an event that happens every October, where the leadership of kind of the top 200 brokers around the country and the top 100 to 150 insurance companies come together and spend time planning how we can solve challenges for our clients, create solutions, etc.

As we were walking around that event, we observed to each other how we were the youngest ones there, and Kris and John said to me that's one of our competitive advantages we've got. We have the kind of the tenacity and the drive not only to take on big challenges, but to run fast and execute, and I said, "We never want to be not the youngest people here." So, the commitment they made at that time is we're going to continue to recruit an incredible bench of talent, we're going to mentor them and make sure that BRP is always known for having fresh, highly competent, highly capable, energetic talent. So, that's what we've done, and we worked through a series of goals that we'd set out for Kris and John, and we've achieved those, and frankly more.

I'm excited for them to enter that next chapter of their lives and spend more time with families and pursuing charitable endeavors, but they'll continue to be close friends of the firm, as you'll see. We also have multi-year consulting agreements with them, so that they'll continue to be able to provide us with their fantastic thoughts and expertise.

But, Kris, why don't you just share a little bit in your own words.

Kris Wiebeck

Josh, appreciate it, always nice to be appreciated. When you think about some of the goals post-IPO, if you look at the guidance we've issued for next year, we basically 10x'ed revenue. That was one of our goals.

If you look at what we've done in the IAS business, that's now a national platform. If you go back to the first question in Q&A, there's some real distress happening in the private equity broker side if rates stay higher. Some of them have PIK interest, accruing interest. I read a Moody's report the other day, someone is over $1 billion of kind of unpaid interest that's PIKing ahead of equity. There's probably going to be a lot of stress there. So, in that world, some of where John and I focused a lot on M&A is, probably more as Trevor said, organic hiring from people that are looking for a solid ship through the storm, and I think BRP is really well positioned for that.

If you go back to our MIS business, at the time of the IPO, I think (inaudible) certainly held the best, you know, Mainstreet focus, personal lines focus, fast growing. You look at where that business is today for us with Westwood, with what we're doing in Charlotte. We're relatively the same size, relatively the same metrics on growth and margin as they are.

Then, if you look at our UCTS segment and what's happening in the MGA. You know, we had a fantastic renters business. That business is still fantastic today, it's now a business that is launching new products, and it is a broad-based platform.

So, for John and I, from a business standpoint, you look at our post-IPO goals, and we were really able to check the box on every single one of them, feel like the Company is super well positioned.

Then, on a personal side, I'm actually going to coach my son's flag football team next week. He's told me I've never been able to coach a team that he's played on, he's seven years old, and so there's a unique opportunity we have. Our kids are still at home and we're going to get to spend some time doing things that when you're working 90 to 100 hours a week you can't do, and we get to make up some of that time. We're really excited for the opportunity to spend some extra time with our family. I know John feels the same way about that, and we're just really grateful for Trevor and the team.

We did recruit a lot of people here and it's a fantastic platform and business, and we really think has a super-bright future ahead, as some of the guidance, and you look forward into '24 and '25, I think it becomes quite evident.

Josh Shanker

Thank you for that answer, and this is a real quick one—and by the way, good luck with everything, that sounds terrific.

Kris Wiebeck

Thank you, Josh.

Josh Shanker

Just a quick one. The organic growth in the Company was faster than the overall growth. Was there a disposition of something during the quarter?

Brad Hale

Yes, it was part of purchase accounting adjustments related to a prior year partnership, Josh, that was our single partnership in Q3 of last year.

Josh Shanker

Okay, thank you.

Trevor Baldwin

Thanks, Josh.

Operator

Our next question comes from the line of Pablo Singzon with JPMorgan. Please proceed with your question.

Pablo Singzon

Hi, good evening. The first question, I was wondering if there are upfront charges to consider that will match the $10 million in-year benefit you're expecting in '24.

Brad Hale

We expect to incur some charges in Q4, Pablo, that will get booked through severance expense, but the $10 million mark is anticipated savings in the '24 guidance that we provided.

Pablo Singzon

Okay, and then, secondly, Brad, on cash interest expense, it sounds like maybe de-levering happens—and by that I mean that's going down (inaudible). It seems more like a '25 event. Would it be fair to assume that cash interest expense stays roughly the same, assuming no material change in the interest rate environment?

Brad Hale

Yes, we've modeled cash interest expense at approximately $120 million next year, Pablo, under the assumption that rates stay consistent with where they are today.

Pablo Singzon

Got it, and then maybe this one's for Trevor. I was wondering how much of a pricing (inaudible) you're getting in the personal lines market? Would it be fair to assume that it's larger than what you're getting in commercial lines at this point?

Trevor Baldwin

It is, Pablo. If we look at the combined impact of rate and exposure on the business, in Q3, it was about 2.3%, which is actually down from around 4% on the first half of the year, and as you parse through that, what I would say is that IAS business was actually lower than that, the MIS business would have been higher than that, and so we're getting close to, if not slightly above, double-digit rate on the personal lines side, whereas we're getting, at this point, largely through some contraction and exposures we saw manifest in the third quarter, as I already talked about, a low-single-digit impact and tailwind in the IAS business.

Pablo Singzon

Got it, that makes sense, and then last for me. I don't think it's an issue for you, but I'd just be curious to hear how the balance sheet (inaudible) just given what's happening on the personal lines side. Some states, insurers just don't have appetite to write. It doesn't seem like it's an issue for you, but I'd be curious to hear what you're seeing on that side of the business. Thanks.

Trevor Baldwin

Yes, I mean, we have the good fortune of having broad-based support from a large panel of blue chip reinsurers, that you would know very well. We just finished our flood renewal on improved terms and we feel really good about our capacity situation, and that's a testament to the underwriting-first approach that our MGA Team takes, and the terrific and consistent, consistently industry-leading loss ratios that our product lines are generating, and so we understand in the—in the MGA business, we've got multiple stakeholders and we've got to deliver consistently profitable business to our capacity providers, while also providing competitive solutions and products that meet the unique and bespoke needs of our clients in the market, and our MGA Team is really striking that balance incredibly well.

Pablo Singzon

Great, thank you.

Trevor Baldwin

Thank you, Pablo.

Operator

(Operator instructions). Our next question comes from the line of Meyer Shields with KBW. Please proceed with your question.

Meyer Shields

Great, thanks. It's a lot, obviously, to digest tonight. Trevor, in your comments, you talked about a conservative—or maybe it was Brad, I apologize—about a conservative look at fourth quarter contingent commissions. I was hoping you could go a little bit deeper in there in terms of which lines of business have, I guess, less certain contingents.

Trevor Baldwin

Yes. So, hey, Meyer, this is Trevor. What you're seeing there is a conservative view of a few loss ratio-sensitive contingent contracts on the personal lines side, where we're taking a conservative viewpoint. Over the past couple of years, we've been doing a ton of work to kind of create master contracts with our core trading partners and generally convert those contracts from contingent loss ratio-based payouts to what we would consider to be GSCs, or guaranteed supplemental commissions. As you've looked at the supplemental commission and contingent commission growth we've experienced over the past couple of years, it's largely on the back of that. There's still some loss ratio-sensitive contracts, and considering just kind of where certain of those are performing, largely tied to convective storm activity across the U.S., we just felt it was prudent to take a conservative view.

Meyer Shields

Okay. Is there any way of ballparking that issue's impact, like the changing view on the fourth quarter Adjusted EBITDA?

Trevor Baldwin

Yes, I'd attribute a few million dollars to that.

Meyer Shields

Okay, fantastic. Thank you so much.

Trevor Baldwin

Thanks, Meyer.

Operator

There are no further questions in the queue. I'd like to hand the call back to Management for closing remarks.

Trevor Baldwin

Thank you all for joining us this evening, and I want to thank our nearly 4,000 colleagues for their hard and dedication. 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 with you again next quarter.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.