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BRP Group, Inc. (BRP)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Bonnie G. Bishop
Executive Director-Investor Relations, BRP Group, Inc.

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.

Brad Hale
Chief Financial Officer, BRP Group, Inc.

OTHER PARTICIPANTS

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

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, greetings and welcome to the Baldwin Group First 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. [Operator Instructions] As a reminder, this conference is being recorded.

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

Bonnie G. Bishop

Executive Director-Investor Relations, BRP Group, Inc.

Thank you, operator. Welcome to the Baldwin Group's first quarter 2024 earnings call. Today's call is being recorded. First 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 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 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'll now turn the call over to Trevor Baldwin, Chief Executive Officer of the Baldwin Group.

Trevor L. Baldwin

Chief Executive Officer & Director, BRP Group, Inc.

Good afternoon and thank you for joining us to discuss our first 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. Our first quarter 2024 results represented one of the most complete performances we've seen across the business since going public, showcasing broad based revenue momentum in tandem with robust margin expansion and improved free cash flow generation in the wake of the expense rationalization initiative completed in 2023. All three of our segments achieved double-digit organic revenue growth, resulting in overall organic revenue growth of 16%. Adjusted EBITDA grew 29% year-over-year, resulting in an adjusted EBITDA margin of 26.7%, a 280 basis point expansion over the first quarter of 2023, and free cash flow from operations grew 51% in the quarter to $53 million.

As we discussed on our last earning call, the business is rapidly approaching a real inflection point. We are four quarters away from satisfying substantially all our outstanding earnout obligations, the result of which will be a step function increase of our free cash flow profile. In IAS, we generated organic revenue growth of 11% in the first quarter. This was largely fueled by record new client wins, which were up nearly 90% over the first quarter of 2023, driven by increased collaboration across the firm, made possible by our integrated platform that enables broad-based accessibility to expertise, pools and resources. We also saw rate and exposure, which had been a headwind in the fourth quarter, returned to more normalized levels and serve as a slight tailwind for the quarter, albeit down meaningfully from what we saw in the first quarter of 2023.

Our UCTS segment grew organic revenue 21% in the first quarter, driven by continued strength in our multi-family and home products, which has persisted into the second quarter and growing contribution from the commercial property and high-net-worth homeowners' products we launched in late 2023. Our MIS segment had a strong quarter with organic revenue growth of 24%. The durability of our embedded homebuilder distribution strategy via our Westwood platform delivered superior new business and retention results, despite continued weakness in housing sales. And our national mortgage and real estate operation continuing to scale rapidly.

As we have discussed over the last few quarters, we have implemented strategies and procedures to deepen our focus on efficiency and to simplify and optimize our operating model. On May 1, we took another meaningful step towards accomplishing that goal with the announcement of our brand transition to the Baldwin Group, in connection with which our public entity changed its name from BRP Group, Inc. to The Baldwin Insurance Group, Inc. With our partnership integration work largely complete, a unified go-to-market brand that enables us to more clearly and efficiently convey the capabilities of our firm to all of our stakeholders is a natural evolution. Importantly, we believe the combined brand will yield revenue, costs and cultural synergies going forward. As part of our rebranding strategy, we are also changing our NASDAQ ticker symbol to BWIN. The ticker symbol change will take effect on May 20.

In summary, we are extremely pleased with our results for the first quarter and for the exciting opportunities that lie ahead for The Baldwin Group. Our largely completed integration work will now enable us to increasingly leverage the full value of our talent and technology advantages, which have driven our continued industry-leading organic growth and accelerating margin and free cash flow expansion. I want to thank our nearly 4,000 colleagues for their tireless dedication and commitment to all of our stakeholders as they manage a dynamic insurance marketplace and transformative period for our firm. As the economy remains resilient by many measures, there are still challenges for many of our clients as they navigate economic uncertainty. We're grateful for our clients, who place their trust in us for advice and solutions, which deliver the insurance protection and risk mitigation vital to their businesses and livelihoods. We continue to work tirelessly on your behalf, simplifying complexity to protect what's possible.

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

Brad Hale

Chief Financial Officer, BRP Group, Inc.

Thanks, Trevor, and good afternoon, everyone. For the first quarter, we generated organic revenue growth of 16% and total revenue of $380 million. We generated double-digit organic revenue growth in all three segments with IAS coming in at 11%, UCTS at 21% and MIS at 24%. We recorded GAAP net income for the first quarter of $39.1 million or GAAP diluted earnings per share of $0.33. Adjusted net income for the first quarter, which excludes share-based compensation, amortization and other one-time expenses was $65.3 million or $0.56 per fully diluted share. A table reconciling GAAP net income to adjusted net income can be found in our earnings release and our Form 10-Q filed with the SEC. Adjusted EBITDA for the first quarter rose 29% to $102 million compared to $79 million in the prior-year period. Adjusted EBITDA margin expanded 280 basis points year-over-year to 26.7% for the quarter, compared to 23.9% in the prior-year period. Adjusted EBITDA growth at nearly double the rate of strong organic growth is evidence of the meaningful operating leverage we have in the business across our expense base.

Free cash flow from operations for the first quarter was $53.3 million, a 51% increase year-over-year, a direct reflection of the expense rationalization work we highlighted last quarter coupled with the continued outsized growth of the business. In the first quarter, we paid $54 million of earnouts in cash, inclusive of amounts reclassified to colleague earnout incentives. Thus far, in the second quarter, we paid an additional $35 million of earnouts in cash, bringing our remaining estimated undiscounted earnout obligations to approximately $222 million. Of note, despite having paid approximately $89 million of cash earnout and $21 million of cash bonuses through April 2024, the business has de-levered over a quarter turn from where we ended 2023.

As discussed on the fourth quarter earnings call, 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 net neutral to net income. As a result of this practice, we added back $3.6 million of compensation expense in the first quarter associated with colleague earnout pool, and based on current estimates, we expect to add back approximately $6 million in the second quarter, for earnouts we paid or are coming due.

On March 1, we closed on the sale of our Connected Risk Solutions wholesale business to Amwins, generating gross cash proceeds of approximately $59 million. As discussed on our last call, this transaction is expected to be neutral to 2024 adjusted EPS and accretive to both 2024 organic growth and adjusted EBITDA margin. As I mentioned earlier, we ended the first quarter at less than 4.5 times net leverage, down more than a quarter turn from where we ended 2023. By year-end, we anticipate having satisfied $130 million of aggregate earnout obligations, while simultaneously bringing net leverage below 4 times, at the high-end of our stated long-term operating range.

Looking ahead, our full-year 2024 guidance remains unchanged. We continue to expect revenue of $1.35 billion to $1.4 billion; organic growth towards the upper end of our long-term range of 10% to 15%; adjusted EBITDA of $315 million to $330 million; and free cash flow from operations of $165 million to $195 million. For the second quarter of 2024, we expect revenue of $325 million to $335 million and organic revenue growth towards the high end of our 10% to 15% long-term range. We anticipate adjusted EBITDA between $69 million and $74 million, and adjusted EPS of $0.30 to $0.34 per share. Of note, based on the expected timing of certain contingent commission revenues and prior-year quarterly comparables, we expect the margin accretion implied in our full-year guidance to be more heavily weighted towards the first and fourth quarters.

To sum it up, we are thrilled about the strong start to the year and the broad-based momentum we are seeing across all of our operating segments. We are immensely proud of our colleagues as they continue to persevere through a challenging insurance environment. Moreover, thank you to our clients for their trust and confidence in our ability to deliver differentiated advice and solutions. We will now take questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. [Operator Instructions] Our first question is from the line of Meyer Shields with KBW. Please go ahead.

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

Thanks. First off, Trevor, [ph] just to get question a lot (00:13:46). Is there any way of quantifying the impact of rate and exposure on first quarter organic?

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.
A

Yeah. Hey, Meyer, good afternoon. So in the retail businesses, rate and exposure was roughly 4.5% tailwind to organic and the revenue in the quarter. I think notably, while that's up from the roughly 2% headwind that we saw in the fourth quarter of last year, it's down meaningfully from roughly a 10% tailwind in the first quarter of 2023. I think that speaks to the underlying quality of the organic growth trend that you saw from the business this quarter, with record new business in the IAS and Mainstreet businesses, new business was up roughly 90% in our IAS business. And overall, new business was a – sales velocity, was up 700 basis points across our retail businesses.

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

Okay. Perfect. That is very helpful. Also a question for Brad. I may be misunderstanding, but you talk about contingent commission being particularly margin helpful in 1Q. But when I look – especially I'm sorry at UCTS, it looks like profit commissions were down significantly by enough, so they were down overall on a year-over-year basis. Am I missing something there?

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.
A

Yeah. Hey, Meyer. So I think what Brad was mentioning was specific to just the margin accretion we're expecting for the year, which is going to be more heavily weighted to the first quarter and the fourth quarter, specific to UCTS, profit commissions were down in the quarter, year-over-year. That's driven really by three kind of primary dynamics, one, in our umbrella product portfolio, we did not receive a contingent commission this year and we did last year. That's about a third of the impact you're seeing on a year-over-year basis. And that – the contingent commissions in that product line tend to be more episodic in nature. It's a long tail product. We have a trading partner there that's been supporting that product line for us and our partner for over 20 years. And, I don't need to tell you about, what's been happening with reserve development and certain casualty lines. So we're certainly not immune to that ourselves, although, we continue to see leading underwriting results overall.

The other two dynamics, one, last year we finished our calculations on profit share commissions in the renter's portfolio during the first quarter, as that books grown, there's more complexity in that calculation. So – and that's more of a timing issue. And then lastly, last year in particular with one of our fronting partners related to a certain product line, we received an override for 18 months' worth of premium as it was a new booking and that this year is going to be 12 months. So again, just a timing dynamic. So two-thirds timing, one-third tied to a specific idiosyncratic dynamic in that umbrella portfolio.

Brad Hale
Chief Financial Officer, BRP Group, Inc.
A

Yeah. I think importantly, Meyer, the performance in Q1 was even better than Brent, because of the headwinds we saw in contingent. So you could have seen an over 400 basis point margin expansion had contingents been a little more in line with the prior year. And [ph] in peeling back (00:17:42) the guidance a little bit, I was specifically talking about Q2 and Q3. So while we continue to see real momentum in core commission and fees, and in real operating leverage in our expense line items, I'll point out two comparables to last year for Q2 and Q3 that I think are worth mentioning. Q2 is largely when we receive cash on our prior-year accrued contingents. In the last couple of years, that's been a favorable tailwind for us, but it's just hard to budget. So we sort of take a conservative approach in Q2 and don't plan for, you know, upside to prior-year accruals.

In Q3, we actually had about $7 million hit Q3 last year that we largely expect to get moved into Q4 this year. And it was related to two items. One, in MIS, we locked in a contingent that eliminated any downside risk for us for the balance of the year. We did that in September 2023 last year. And in UCTS, we received sufficient information about our home book in September of 2023 last year in order to book an estimate. We would expect a more normal trend to be getting that information in Q4. So that's the shift you're seeing year-over-year. Given those dynamics, if you read between the lines, we're forecasting about 50 basis points to 150 basis points of margin expansion in Q2 and Q3 and about 450 basis points to 600 basis points in Q4. As contingents develop, right, that can shift throughout the year. But based on the line of sight we have now, we think that's the best view of the cadence of the margin expansion we get this year.

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

Okay. That was phenomenal. Thank you very much, guys.

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.
A

Thanks, Meyer.

Operator: Thank you. Our next question is from the line of Elyse Greenspan with Wells Fargo. Please go ahead.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC
Q

Hi. Thanks. Good morning. I think you guys called out, I think, Brad you addressed in your prepared remarks, right, but this new colleague earnout incentive line. Is that just a geography, meaning a shift from your other earnouts? I'm just trying to understand if that's like a new metric this quarter for it's – just it sounded like maybe it's just geography?

Brad Hale
Chief Financial Officer, BRP Group, Inc.

A

It is just geography, Elyse, I think we had it in Q4 as well. The nature of it is, look, we fully accrue the earnouts and certain of our partners establish a colleague incentive pool, where they can allocate a portion of the earnout to non-selling shareholders. That is not a sort of Trevor and Brad decision, right. That is our selling former partners make that decision. It does result from a GAAP perspective and a shift from the change in earnout to comp expense, because they are Baldwin Group colleagues. So it's just a geography thing in terms of how we treat that in the add-back schedule, because it's net neutral to the P&L, the change in earnout directly offsets the comp expense hit we take, but if we don't add it back, it mischaracterizes what the accrued earnout payment was that we had accrued over time with respect to performance of that business.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And that was the $6 million I guess for the Q2. So would you expect that line, I guess, to, call out something in that line item until you get through the majority of the earnouts later this year?

Brad Hale
Chief Financial Officer, BRP Group, Inc.

A

Yes. We would. And again, these aren't necessarily, massive pools and we don't have line of sight because it's not our decision to make. So, yes, we will be explicit about calling out what we're seeing so that you all can model it appropriately.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. And then on, to the last question, I think you said [ph] 600-and-change basis points, right (00:21:54), of margin improvement in the fourth quarter. What's like – what's driving that, I think there was some contingent discussion, but what's like – what's the big driver of that 600 basis points, because that's a pretty big level of margin improvement in the fourth quarter?

Brad Hale
Chief Financial Officer, BRP Group, Inc.

A

Yeah. I would characterize it as two things, Elyse. One is, I mentioned $7 million of contingents that we would expect to largely show up in Q4 this year. That did not show up in Q4 last year. And as you know, that's super margin accretive. In addition, we've mentioned the headwinds we saw on rate and exposure in the IAS business last Q4. And based on the trends we're seeing now in that rate and exposure normalizing, we would expect an uplift in that business which bridges the full 450 basis points to 600 basis points of margin expansion I mentioned.

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.

A

Yeah, Elyse, it's Trevor. I think it's worth really underscoring the momentum we're seeing and underlying net new client wins. And as Brad mentioned earlier, it was a fantastic quarter for the business; hitting on all cylinders, broad based, double-digit organic growth across all segments. But despite all of that, the strength of the quarter is not even fully highlighted in the financial results as a result of, the contingent commission timing we mentioned in UCTS and elsewhere, we're incredibly excited and bullish about what we're seeing in the business, the work we've done to really stitch the business together through all the hard work around integration and development and deployment of technology, how it's enabling us to go to market effectively and efficiently, how we're seeing our colleagues work together across the platform to drive really fantastic results and outcomes for our clients. And all of that's resulting in really, really strong momentum on core client commissions and fees. And we expect that to continue.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then on, Trevor, last quarter on M&A, right, you said even though you guys will be within your leverage target at the end of this year, it sounds like you might go back into deal mode next year, but it'll be a little bit of a different strategy than in the past. Is that still kind of the same, I guess, M&A blueprint that you guys have today?

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.

A

Yeah. That's the right way to think about it, Elyse. Our priority continues to be in de-levering the business. As we sit here today, we're a short few quarters away from having a very different free cash flow profile for the overall business. And as a result, we're going to have a lot more flexibility from a capital allocation standpoint, that's something we're very much, planning for and looking forward to. M&A has been an important lever for us in the business over time and one that, we've been able to successfully pull to create a lot of value for shareholders, and it's one that we expect to continue to do so with. But that – all that being said, M&A is going to look differently for us going forward. When we came public in October of 2019, roughly $135 million of revenue, getting the scale was existential. We were at a period in time, where there was a gold rush of sorts for the industry broadly around really kind of large scale, high-quality firms that were coming to market.

And I'd say better than anyone else, we took advantage of that time and we were able to partner with, what we believe to be among the highest quality, most differentiated platforms out there. And you see that represented in the continued durability of our outsized organic growth and beginning to see that flow through in the underlying kind of margin accretion, as we brought those businesses together. And lots more to come there. Going forward, we would expect M&A to be a bit more episodic in nature. We find ourselves today at a time, where M&A volumes are down, call it 35%, 40% year-over-year, largely a function I think of, where cost of capital is and the impact that's had on some of the more highly levered acquirers in the space. So we're going to sit back, we're going to pick our spots, where focus has always, first and foremost on culture and alignment, and then equally so on, strategic fit and what makes financial sense. And we need to check all three of those boxes.

So I would not anticipate us doing any meaningful amounts of M&A through the balance of this year. And from there it's going to be episodic in nature to a degree where I'm not sure I'd suggest you put anything in your models, but we're going to be opportunistic and when something strategic comes out that makes sense where there's strong fit, we're going to be all over it. And, we've proven, we've got the playbook. We can identify those high-quality businesses, we believe, and history would suggest we have an offering that is attractive to those high-quality firms and those principals that aren't looking to sell out but sell in and become part of a larger scale enterprise, where the very best and brightest of our industry can come together, and ultimately, through our shared experiences and collective expertise, generate and create outcomes that otherwise would be, we would unable to do on our own.

So we're super excited. We feel like we're really well-positioned. And importantly, the business is performing exceptionally well on an underlying basis, both from a top line and bottom line margin accretion. And so, we're not in a position where we have to do anything and we can pick our spots.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC
Q

Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Pablo Singzon with JPMorgan. Please go ahead.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC
Q

Hi. Thank you. There was a note in the Form 10-Q about FounderShield being moved from UCTS to Insurance Advisory. How much did that change the growth profile in each of those segments? Or was it not meaningful enough either way?

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.
A

It was not meaningful enough either way, Pablo. It didn't change materially.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC
Q

Okay. And then, Trevor, I was hoping you could unpack your commentary on, new business growth, that tremendous number right? I was curious to hear if it's – you're seeing it broadly speaking, or is it concentrated for geographies or practice areas and serve any color commentary you can provide would be helpful?

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.
A

Yeah. The new business was broad-based across our footprint, so I wouldn't say it was concentrated in any one area Pablo, which is fantastic to see. We've brought together businesses with deep expertise across a number of areas, including real estate, oil and gas, construction, private equity and M&A, technology and life sciences, and we're seeing big wins in all of those areas. And importantly, we're seeing parts of our business that didn't have that expertise before they joined The Baldwin Group, leveraged those resources and those capabilities as a result of how accessible we've made them through the work we've done to integrate this business and how we've aligned and assimilated around a common go to market model. And that's unlocked real opportunity that's being leveraged in the field to deliver that expertise and ultimately convert that into new client relationships.

So it's broad based. And, I'd say we saw a recovery in our construction practice in the quarter as we signaled that we had expected in last call. It wasn't anything outlier in nature. It was more just kind of regular way, the type of growth and new business results we would expect to see.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC
Q

Got it. That makes sense. And then last one for me, I was curious to hear if you're any – seeing change in I guess, the compensation you're receiving from your insurance providers on an overall basis. And I guess specifically, in the main three channels, right, where, I guess, the past several years like [indiscernible] (00:30:53) have been under pressure and I think some of them have adjusted compensation [ph] further program focus (00:30:59). But any significant changes you're seeing, I guess, for the overall company, right. And perhaps can you even touch on Medicare or the commercial side and then specifically the retail, Mainstreet business? Thanks.

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.
A

Yeah. So at a high level, no, Pablo, we're not seeing any, abnormal changes there. When we look at both our IAS and our Mainstreet business, client retention continues to operate in line with where we have historically overall premium retention, if anything is, above the intermediate to longer-term historical standards based on where we are in the rate cycle. And look, I'd say from time to time, do you see insurance companies, pull on the commission lever if they're experiencing pretty significant financial challenges? Yeah, you do. And do we see that from time to time? Absolutely. Do we ever see that in a manner that's kind of noticeable or impactful to our overall results? No, we haven't. And we're not seeing that today, and we wouldn't anticipate that going forward.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC
Q

Okay. Thank you.

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.
A

Thank you, Pablo.

Operator: Thank you. Ladies and gentlemen, as there are no further questions, I now hand the conference over to Trevor Baldwin for his closing comments. Trevor?

Trevor L. Baldwin
Chief Executive Officer & Director, BRP Group, Inc.

Thank you, Ryan. I want to thank everyone for joining us on the call this afternoon. In closing, I want to thank our colleagues for their hard work and dedication. I also want to thank our clients for their continued trust and confidence. Thank you all very much and I look forward to speaking with you again next quarter.

Operator: Thank you. The conference of The Baldwin Group has now concluded. Thank you for your participation. You may now disconnect your lines.