The Baldwin Group, Inc.

Second Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Bonnie Bishop, *Executive Director, Investor Relations*

Trevor Baldwin, *Chief Executive Officer*

Brad Hale, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Gregory Peters, *Raymond James*

Elyse Greenspan, *Wells Fargo*

Tommy McJoynt, *KBW*

Pablo Singzon, *JPMorgan*

Grace Carter, *Bank of America*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to The Baldwin Group Second Quarter 2024 Earnings Call.

All participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please the star key, and then zero on your telephone keypad.

Please note that this event is being recorded.

I'd now like to turn the conference over to the Executive Director of Investor Relations, Bonnie Bishop. Please go ahead.

Bonnie Bishop

Thank you. Welcome to The Baldwin Group's Second Quarter 2024 Earnings Call. Today's call is being recorded. Second quarter financial results, supplemental information and Form 10-Q were issued earlier this afternoon and are available on the Company's website at ir.baldwin.com.

Please note that remarks made today may include forward-looking statements subject to various assumptions, risks and uncertainties. The Company's actual results may differ materially from those contemplated by such statements. For a more detailed discussion, please refer to the note regarding

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forward-looking statements in the Company's earnings release and our most recent Form 10-Q, both of which are available on the Baldwin website.

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

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

Trevor Baldwin

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

The second quarter saw exceptional results across the business, marked by a continuation of the broad-based revenue momentum, margin and free cash flow expansion we generated in the first quarter. For the second quarter, we achieved organic revenue growth of 19%, up from 16% in the first quarter, driven by core commissions and fees growth of 23%, a testament to the strong underlying performance we are seeing in the business led by continued outsized net new client wins.

Year over year, Adjusted EBITDA grew 22%, Adjusted EBITDA margin expanded 130 basis points to 22%, and free cash flow grew 10% to $18.1 million. Excluding $13.6 million of one-time, third-party refinancing costs incurred during the second quarter, free cash flow would have expanded 93% year over year. As a result of the work we have done to integrate our platform, we have immense operating leverage that will continue to be realized as we rapidly scale, highlighted by year-to-date Adjusted EBITDA margin accretion of 210 basis points to 25% and free cash flow of $71.4 million, which is up 38% from the prior year period or 64% excluding the impact of one-time, third-party refinancing costs.

Importantly, we now sit less than eight months away from satisfying almost all of our outstanding earnout obligations and remain bullish on the substantial flexibility that materially improved free cash flow generation will afford us amidst an inflection of our financial profile.

In IAS, organic commissions and fees revenue growth came in at 10%. Overall organic revenue growth for the quarter was 8%, bringing the year-to-date total to 10%. Net new business momentum continued in the second quarter, with sales velocity of 24% compared to 21% in the prior-year quarter, and client retention in excess of 90%. Year-over-year through the second quarter, new business is up over 60% on the back of investments in talent we've made over the last three years, growing momentum and impact from our industry practice groups and centers of excellence as well as growing traction and awareness from our re-branding efforts. We would note that IAS saw some timing-related contingent softness during the quarter, along with negative rate and exposure, primarily emanating from our real estate portfolio clients where they have absorbed years of significant rate increases and we are starting to see early signs of a softening rate environment.

Our UCTS segment had another outstanding quarter, delivering robust organic revenue growth of 37%, and commissions and fees growth of 46%, on the back of broad based momentum across the MGA, and growing contribution from JuniperRe, the reinsurance broker we launched last year, which had a very strong quarter and is gaining traction in the marketplace. Most notably, we're excited to announce that during the second quarter, the MGA surpassed $1 billion of in force premium, marking a significant milestone as we continue to both rapidly grow our existing programs and launch new programs that offer tailored insurance solutions that meet the evolving insurance needs of our distribution partners and the more than 1.5 million insured policy holders we serve nationwide, while delivering profitable underwriting results to our insurance capacity providers.

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Our MIS segment showed continued strong momentum in the second quarter with organic revenue growth of 25%. Westwood continues to have success expanding its position as the pre-eminent provider of insurance distribution services to the new home builder channel, having signed up two new leading builders in the quarter. Westwood now works with 17 of the top 25 builders in the U.S. Our National Mortgage and Real Estate operation in Charlotte is performing well and in July set a new internal best for monthly new business premium. We're continuing to make progress on the embedded front and look forward to the future growth tailwinds that will generate for us.

In summary, we are very pleased with our results for the second quarter and for the exciting opportunities that lie ahead for The Baldwin Group. Our largely completed integration work will increasingly enable us to leverage the full value of our talent and technology to drive continued industry leading organic revenue growth and accelerating margin and free cash flow expansion. As we look ahead, our focus remains on delivering exceptional execution and innovative solutions to our clients. I want to express my gratitude to all of our colleagues across The Baldwin Group for their ongoing perseverance in an evolving insurance environment and their tireless work to protect the possible for our clients each and every day.

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

Brad Hale:

Thanks, Trevor, and good afternoon, everyone.

For the second quarter, we generated organic revenue growth of 19% and total revenue of $339.8 million. Looking at the segment level, we generated organic revenue growth of 8% at IAS, 37% at UCTS, and 25% at MIS.

We recorded GAAP net loss for the second quarter of $30.9 million, or GAAP diluted loss per share of $0.28. Adjusted net income for the second quarter, which excludes share-based compensation, amortization and other one-time expenses, was $40.3 million, or $0.34 per fully diluted share. A table reconciling GAAP net income to adjusted net income can be found in our earnings release and our 10-Q filed with the SEC.

Adjusted EBITDA for the second quarter rose 22% to $74.9 million compared to $61.6 million in the prior year period. Adjusted EBITDA margin expanded 130 basis points year over year to 22% for the quarter, compared to 21% in the prior year period.

Free cash flow for the second quarter was $18.1 million, a 10% increase year over year. Excluding the impact of one-time, third-party refinancing costs incurred in the quarter, free cash flow grew 93% year over year, a direct reflection of our continued focus on expense discipline and operating leverage in the business.

In the second quarter, we paid $37.4 million of earnouts in cash, inclusive of amounts reclassified to colleague earnout incentives. In July, we paid an additional $5 million, bringing our year-to-date total cash earnout spend to $96.5 million. Our remaining estimated undiscounted earnout obligations now stand at approximately $218 million. As a reminder, several of our Partnership agreements contain provisions that permit former selling shareholders to allocate portions of the earnout proceeds to colleagues who meaningfully contributed to the partnered firm's achievement of the earnout. When this determination is made, we record compensation expense that is an offset to the change in contingent consideration and neutral to net income. As a result of this practice, we have added back $2.8 million of compensation expense in the second quarter associated with colleague earnout pools, and based on current estimates, expect to add back approximately $3 million in the third quarter for earnouts that are coming due.

At the end of the second quarter, net leverage stood at 4.4x, a further reduction from the first quarter. We remain on track to bring net leverage back within our stated long term range of three to four times by year end. In May, we took advantage of favorable market conditions and opportunistically refinanced our debt facilities. We tightened pricing on a new $840 million term loan facility to Term SOFR + 3.25% at close, a

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36 basis point improvement. Pricing will improve an additional 25 basis points to Term SOFR + 3.00% once net leverage drops below 4.0x. In addition, we introduced a fixed rate component to our debt stack via a $600 million offering of senior secured notes priced at 7.125%. We maintained $600 million of capacity under our revolving credit facility, which is undrawn today. We are thrilled with the execution we were able to achieve here and believe we now have a well balanced mix of both fixed and floating rate debt that positions us to benefit from potential future rate cuts while also protecting us in an environment where the rate curve moves higher.

Looking ahead, we made slight updates to tighten the ranges on our previously disclosed full year 2024 guidance. We expect revenue of $1.375 billion to $1.40 billion, organic revenue growth towards the upper end of our long-term range of 10-15%, Adjusted EBITDA of $315 million to $325 million, and free cash flow of $165 million to $195 million. For the third quarter of 2024, we expect revenue of $340 million to $350 million, and organic revenue growth toward the high end of our 10-15% long-term range. We anticipate Adjusted EBITDA for 3Q between $71 million and $76 million and adjusted diluted EPS of $0.32 to $0.36 per share. As discussed on our Q1 earnings call, we continue to anticipate that the margin accretion for the balance of the year will be more heavily weighted towards the fourth quarter, based on the expected timing of certain contingent commission revenues.

In summary, we are pleased with the results for the first six months of this year and the momentum we are seeing across the business on the organic growth, margin, free cash flow and net leverage fronts. The underlying strength of our franchise has never been stronger as evidenced by historically high net new business wins year-to-date and continued momentum we anticipate on that front as clients and prospects continue to evidence a top of mind preference for our capabilities and solutions. We are incredibly proud of our colleagues' dedication as they navigate the complexities that persist in the insurance market and create value for all of our stakeholders. We would also like to extend our gratitude to our clients for entrusting us with their needs and believing in our ability to provide distinct advice and solutions.

We will now take questions. Operator?

Operator

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press star, and 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 to leave the question queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star key.

Our first question comes from Gregory Peters of Raymond James. Please go ahead.

Gregory Peters

Good afternoon, everyone.

Trevor Baldwin

Hey, good evening, Greg.

Gregory Peters

Yes. So the first question will be, you talked about the sales velocity. And Trevor you were going through some numbers, but I think the sales velocity mentioned was up 24% second quarter versus 21% and before and you talked about retention ratios of in excess of 90%. So I'm just wondering what's going on with the sales velocity that you're picking up some momentum. And then trying to bridge the gap between the 24% sales velocity result and the organic 8% number in the insurance advisory business.

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Trevor Baldwin

Yes. Yes, happy to detail that, Greg. So as I mentioned earlier, we saw sales velocity of 24% in the quarter which compares to 20% in the prior year period which is just an exceptional result. That compares to an industry average sales velocity rate of roughly 11% and a 75th percentile sales velocity rate of 15%. So you're talking kind of top-decile industry-leading performance from a net new client wins perspective.

As I mentioned on the call, we also had client retention in excess of 90% which continues to be very strong. We did see rate and exposure which trended negative in the quarter. And I'd say that was largely driven by our concentration of real estate clients who renew in May and June which is kind of a normal trend for when our large real estate portfolio clients renew.

In our real estate book, particularly for those clients who have significant exposure to coastal properties, we were able to deliver broad-based rate reductions. And so you're seeing that flow through in what was a 4% negative rate and exposure headwind for the quarter. But as a result of terrific work, our client-facing colleagues executed on to deliver meaningful savings to clients, whom have absorbed years of pretty significant increases.

In addition to that, in the prior year period, when we were experiencing frankly the opposite where capacity was incredibly tight and we were seeing significant increases, rate and exposure was a 10% tailwind to organic growth. And so you had a 15% swing in the impacts of rate and exposure in the quarter. We expect double-digit organic growth from IAS to the full year and that's driven by a really strong underlying fundamental trend which is continued industry-leading new business generation.

We expect rate and exposure will likely trend back to positive in the back half of the year, as this was somewhat anomalous to the concentration of real estate client renewals that we had in the quarter and you tend to see a heavier concentration of casualty-driven renewals in the back half of the year where we're frankly seeing the opposite trends with accelerating loss cost, largely driven by social inflation and pretty meaningful high-single low double-digit rate increases to excess liability and heavy auto lines.

So would just reinforce the momentum we're seeing in the IAS segment is remarkable. We couldn't be more excited about the results we're seeing from how we've organized the business around deep industry specialization and risk product centers of excellence and how that's pulling through and showing up in client wins with broad-based collaborative teams across geographies and specialties. And in addition to that, we did see a little bit of timing-related softness to contingents in the quarter. And we expect for the full year that you'll see growth in contingents. And over time, we would continue to expect contingent revenues to grow at least at or above the rate of core commissions and fees.

Gregory Peters

That was a full answer. Thank you. I guess for my follow-up question, I'll pivot to the margin results. And we're here in August and we as analysts like to look forward to 2025 and beyond. And just trying to figure out, what levers you have to pull for margin expansion beyond this year, because it looks like you're having a fair amount of success this year. But looking forward beyond this year, how you're framing up the potential for margin improvement across the enterprise as we look beyond?

Trevor Baldwin

Yes. Hey, Greg. I'll have Brad go into the details, but I would just kind of start with broadly saying when you look at the margin profile of our peers generally, there's structurally no difference between our business and that of our peers. And so over time we would expect our business to generate margins at least equivalent to if not greater than our peers, particularly when you look at the general kind of revenue sources across our business and the degree of investment we've made in a truly modernized technology backbone. So that's to say, a long-winded way of saying I guess, we expect to have margin accretion for years into the future. But Brad why don't you dive a bit deeper there?

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Brad Hale

Yes. So if we look at this quarter specifically Greg, the lift in margin came really from the core operations of the business. And we think it makes the result even more impressive than what the strong financial results are showcasing. So we improved margin 130 basis points, despite the profit sharing sort of headwinds that were timing related which we flagged on the Q1 call. If you just held contingents flat year-over-year in the quarter, we would have expanded margin an additional 150 basis points.

If you look at the comp line, right, comp expense as a percentage of total revenue was 390 basis points lower than Q2 '23 and 660 basis points lower as a percentage of commission and fees excluding contingents. OpEx was an equally impressive trend, 230 basis points lower than Q2 '23as a percentage of total revenue 300 basis points lower as a percentage of commission fees excluding contingents. So this is consistent with the messaging we provided, where we've got significant operating leverage in the business and we're making progress towards that margin expansion that we've been communicating.

I think as you look to levers in the future, it's just continued execution. It's continuing to drive on the organic measures, the organic growth in the business that you're seeing while achieving the operating leverage in the business that we know exists across those comp and OpEx lines.

Gregory Peters

Got it. Thanks for all the detail.

Trevor Baldwin

Thanks, Greg.

Operator

Our next question comes from Elyse Greenspan of Wells Fargo. Please go ahead.

Elyse Greenspan

Hi, Thanks. Good evening. My first question I guess is building upon some of the prior discussion on organic. So within I guess maybe sticking to the Q3 I guess within that guide what are you assuming is going to happen to contingents? Because I know you said that they would be more heavily weighted to the fourth quarter. And in both the third and the fourth quarter, are you assuming that IAS organic gets back into the double-digits?

Brad Hale

Yes. So both the third and the fourth quarter we are anticipating that IAS gets back into double-digits as a part of our guide of the high end of 10% to 15% for the balance of the year. And as we outlined on the Q1 call, we had a pretty big timing shift of profit sharing revenue that we recorded in Q2 and Q3 of the prior year that got shifted to Q4 of this year. But as Trevor articulated by the end of 2024, we do expect contingents to normalize and to be slightly up across the full year.

Elyse Greenspan

And then can you provide I guess like an update on the reinsurance build-out? And was there any revenue contribution in the quarter?

Trevor Baldwin

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Yes. Hey, Elyse, this is Trevor. We're overall incredibly pleased with where JuniperRe is at and how that business continues to scale. We did see frankly pretty meaningful revenue contributions from that business in the second quarter, contributing roughly five points of organic growth in the UCTS segment.

Now that should prove to be a relative high point for this year just as a result of seasonality of how those revenue streams overall hit. But I'd say, the business continues to perform very well. We've been able to attract really strong talent. And it's clear that the platform is really beginning to resonate into the marketplace. I'd say it also remains our base case that we see a pretty clear path to that business being profitable as soon as 2025. Although we do remain opportunistic if incremental opportunities to bring on industry-leading talent present themselves. And so we're excited. That business is tracking ahead of expectations and plan internally and has growing momentum and impact in the market.

Elyse Greenspan

And then one last one on the UCTS segment. Pretty strong growth there. Embedded within the guidance, I guess, what are expectations for organic growth within that business over the balance of the year?

Trevor Baldwin

Yes. So we try to stay away from segment-specific guidance, Elyse. But what I would tell you is overall we're incredibly pleased with the continued momentum at UCTS. And that strength you saw this quarter was very broad-based and we would expect that to continue. And we saw our homeowners business continue to grow at an outsized rate. Premium for our total home business, which includes builder, non-builder E&S plus admitted and real estate investor portfolio grew just over 50%. And you'll recall, we wrote our first home policy in early 2022. That portfolio now is approaching $500 million of in-force premium.

In addition to that really our legacy initial product which is the renters business continues to grow very nicely and scale. Commissions and fees for the renters product line was up 28% in the quarter. And into July, we continue to see record days of new business production.

I mentioned earlier, the contributions from Juniper. And I'd say the overall OG print of 37% similar to the margin story Brad detailed earlier doesn't fully represent the strength of the results with underlying commissions and fees being up 46% in the quarter. So we're not forecasting that same level of organic growth for the balance of the year but we do expect continued double-digit organic growth out of that segment, and frankly out of all of our segments.

Elyse Greenspan

Thank you.

Trevor Baldwin

Thanks, Elyse.

Operator

The next question comes from Tommy McJoynt of KBW. Please go ahead.

Tommy McJoynt

Hey, guys. Thanks for taking my questions. Yes. So we've certainly seen some signs across the industry and it sounds like you guys are confirming it as well that we're seeing some prep softening on the property side and hardening on the casualty side. Is there a way to kind of simplify or boil down what you think of as your rough mix in terms of property versus casualty?

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Trevor Baldwin

Yes. I mean, specific to our retail broking businesses, Tommy, I wouldn't say that, our mix is demonstrably different from that of our peers. We tend to have heavy concentration of cat property renewals in May and June just due to the complexion of our book. But we would not—we don't have an outsized property component to our book relative to casualty or professional lines.

Overall, just commenting on the rate environment what I would say is while there's certainly puts and takes and you're seeing a deceleration on property. particularly cat property amongst larger clients, you're seeing an acceleration on the casualty side, in particular on excess and auto lines. And in general, what I would tell you is that, the complexity of the world and the risks emanating it—from it are growing.

The frequency and severity of natural catastrophes continues to rise. And so risk is becoming an increasingly complex and top-of-mind topic amongst the C-suite across businesses and our clients. And in general, while there will be puts and takes in any given quarter or any given year we would expect that the rate at which both risk and the complexity of risk grows will continue accelerating into the future leading to ultimately our advice and our solutions be coming in to growing demand across our clients. And so we expect continued meaningful tailwinds well into the future as a result of those dynamics.

Tommy McJoynt

Got it. Thanks for that. And just as a separate area. We've obviously seen some volatility in rates here over the past few days. To the extent that rates do come down or perhaps stay down to levels where they are now does that change your calculus for when you would look to reengage in M&A more meaningfully? Or it's still a perhaps second half of 2025 story?

Trevor Baldwin

Yes. So Tommy, we're focused on delevering the business and continuing to execute towards what is a meaningful inflection in our overall financial profile. We continue to be thoughtful about building relationships across high-priority M&A opportunities and as a result have a healthy pipeline of relationships. But what I would tell you is that for the time being we're heads-down focused on executing in the core business. We do expect for M&A to be a bit more episodic going forward for the reasons we've talked about in the past, but will certainly be an important and meaningful value-creation lever for us over time.

With that being said, I'd say with M&A being a lever that becomes more readily available in the second half of 2025 what we would say is you shouldn't model any impacts from M&A until 2026 just because of the varying nature of timing that occurs when getting transactions over the line.

Tommy McJoynt

Makes sense. Thanks, Trevor.

Trevor Baldwin

Thanks, Tommy.

Operator

The next question comes from Pablo Singzon of JPMorgan. Please go ahead.

Pablo Singzon

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Hi. Good afternoon. First question I had, if you think about the full year 2024 guide for organic growth would it be fair to say that you're assuming a headwind to contingents to that number? And if so could you quantify what the headwind might look versus a normal year?

Brad Hale

Yes. So I wouldn't say we're forecasting a headwind year-over-year, Pablo. I would say we still expect from a dollar value perspective that contingents would be slightly up from the prior year. As a percentage of revenue we could see a slight decline this year just based on the timing of when certain contingents have hit across the year. But look, the communication of organic growth at the high end of our 10% to 15% our continued performance or outperformance against that metric just shows the underlying core strength of the business. And it's that core strength that really is the strongest growth of all right that is going to drive continued margin accretion for us in the future as those policies renew.

Pablo Singzon

Got it. And then just switching to margins. I guess I'll ask the question this way, right? From a business perspective as you think about recruitment and investments you need to make can you sort of frame given where you are now how you think headcount might trend next year? What sorts of investments are you putting the resources of the firm into? And I suppose against that like can you also discuss any ongoing expense initiatives that you're still executing? Thank you.

Trevor Baldwin

Yes. Hey Pablo, it's Trevor. I'll tackle a few of those. So we continue to invest in frontline talent and grow our client-facing colleague base in a manner that we believe is more than adequate to sustain the double-digit organic growth expectations that we have for ourselves well into the future. We continue to invest meaningfully into the modern technology infrastructure that enables us to drive meaningful efficiencies into the way in which we interact and operate both internally and with our clients. And ultimately believe that will yield significantly enhanced overall client experiences, while also meaningfully elevating the way in which our colleagues work ensuring that they spend the vast preponderance of their time building relationships and providing advice and counsel and solutions rather than kind of what can be somewhat low-value task-oriented work that's fairly manual in nature that still exists across the industry.

And so, as we think about the opportunity for continued margin accretion, I'd say it's across both the compensation and OpEx line items. Not because we're not reinvesting in the business, but because of the way in which we've structured our platform, integrated the business, built our technology backbone and how that enables us to pioneer new ways in which we're operating and executing that deliver better outcomes for our clients, better experiences for our colleagues and better results for our shareholders.

Pablo Singzon

Got it. And then maybe just one last one, Trevor. On M&A, I'd be curious to hear your thoughts about—so you're sitting out on M&A for now right? But do you think that being out of the market for quite a while here will put you at a disadvantage when you eventually return? Thank you.

Trevor Baldwin

No. We don't think we'll have any disadvantage. We could pick up the phone tonight and have M&A turn back on tomorrow.

Pablo Singzon

Thank you.

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Trevor Baldwin

Thank you, Pablo.

Operator

The next question comes from Grace Carter of Bank of America.

Grace Carter

Hi everyone. I wanted to go back to the guidance that you all gave earlier. It sounds like revenues are expected to come in at the higher end of the original range that you all gave, but the Adjusted EBITDA range I think that the upper end tightened to $325 million from prior $330 million. Can you help us square I guess the revenues coming at the upper end of the range versus the tightening on the Adjusted EBITDA outlook? Thank you.

Brad Hale

Yes. Sure, Grace. So look, we have increased confidence in that top end of our revenue guidance given the exceptional performance in the underlying core business that we've shown year-to-date as demonstrated by the sales velocity in the retail business that Trevor talked about and the outperformance particularly in certain of our new products in the MGA. As I mentioned before, this is really the healthiest kind of growth and it's driven by variables that we control. But as you think about each of those levers of growth, both of them are marginally less accretive on a relative basis than say what would come from just rate and exposure on your renewal base. So we're yielding slightly less pull-through in EBITDA than I think we could have maximized in the year, which is why you're seeing us slightly bring down the EBITDA guide while expanding the revenue guide.

Nonetheless, at the tightened range that we've provided, it would be 240 basis points to 270 basis points of margin expansion on the year accompanied by the high end of our 10% to 15% organic growth. So we view that as a phenomenal outlook and would be a phenomenal outcome here with six months to go.

Trevor Baldwin

Grace, this is Trevor. I would just reinforce a couple of things. The quality of the organic growth is a result of it being almost entirely driven by new revenue drivers that are internally oriented versus benefiting from just kind of external rate or exposure expansion. And so you can think about that being as far more sustainable into the future.

And as Brad articulated, when you have that really healthy kind of internally driven organic growth, it does come in at a slightly higher expense load in year one due to the mechanics of new business revenues. But it comes with a mechanical margin lift that occurs in the next year as those policies renew at that lower expense base.

And so, what I would tell you is, it's for the best of reasons, which is we're seeing higher than expected new business results leading to better organic growth and higher top line and building in mechanical margin accretion into next year.

Grace Carter

Thank you. That's helpful. And on the free cash flow outlook, I mean I think you all mentioned the refinancing costs this quarter having a negative impact on free cash flow versus what it would have been otherwise. I was just wondering since the outlook stayed the same, I guess where do you all see the offset coming for the remainder of the year? Thanks.

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Brad Hale

Yes. I would say with our guide, we were largely excluding that item. So we would expect with our EBITDA and revenue performance largely in line with our previous guidance that the free cash flow would perform in a similar manner.

Grace Carter

Thank you.

Trevor Baldwin

Thank you, Grace.

Operator

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now hand over to Trevor Baldwin for closing remarks.

Trevor Baldwin

Thank you, Judith, and thank you all for joining us on the call this evening. We are incredibly excited for the underlying momentum we have in our business as evidenced by the continued outsized growth and new client wins, growing margin accretion that should be a trend we continue well into the future and meaningfully expanded cash flow, all leading to a significant near-term inflection of our financial profile.

We have an industry-leading organic growth engine, which we believe will prove sustainable through insurance market and economic cycles due to the quality and diversity of our revenue drivers.

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

Ladies and gentlemen, that concludes today's event. Thank you for attending and you may now disconnect your lines.

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