



The Baldwin Group

Third Quarter 2025 Earnings Conference Call

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

Bonnie Bishop, *Executive Director, Investor Relations*

Trevor Baldwin, *Chief Executive Officer*

Brad Hale, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Greg Peters, *Raymond James*

Charlie Lederer, *BMO Capital Markets*

Elyse Greenspan, *Wells Fargo*

Pablo Singzon, *JPMorgan*

Andrew Andersen, *Jefferies*

Brian Meredith, *UBS*

Tommy McJoynt, *KBW*

PRESENTATION

Operator

Ladies and gentlemen, greetings and welcome to The Baldwin Group Third Quarter 2025 Earnings Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star and zero on your telephone keypad. As a reminder, this conference is being recorded.

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

Bonnie Bishop

Thank you. Welcome to The Baldwin Group's Third Quarter 2025 Earnings Call. Today's call is being recorded.

Third quarter financial results, supplemental information and Form 10-Q were issued earlier this afternoon and are available on the Company's website at ir.baldwin.com.

Please note that remarks made today may include forward-looking statements subject to various assumptions, risks and uncertainties, including, for example, our strategy with respect to our capital allocation in the future. 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 a more detailed discussion of these non-GAAP financial measures and historical reconciliation to the most closely comparable GAAP measures, please refer to the Company's earnings release and supplemental information, both of which have been posted on the Company's website at ir.baldwin.com.

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

Trevor Baldwin

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

We generated strong overall results in the third quarter despite a dynamic operating environment and the expected persistence of certain idiosyncrasies we highlighted last quarter. Organic revenue growth in the quarter was 5%, bringing our year-to-date organic revenue growth to 9%. Adjusted EBITDA was flat year-over-year, bringing our year-to-date Adjusted EBITDA growth to 9%. Adjusted EBITDA margin and adjusted diluted earnings per share contracted slightly in the quarter. On a year-to-date basis, Adjusted EBITDA margin is roughly flat year over year and adjusted diluted earnings per share has grown 11% year over year.

We previously discussed two temporary items that we expected to have a finite impact on our results over the near term. First, a procedural accounting change in our Insurance Advisory Solutions segment impacting timing of when we recognize commission revenues; and second, the reduced commission from QBE that went effective on May 1 on the builder sourced homeowners book of business we are rolling into our recently formed reciprocal exchange, BRIE. As a reminder, these are temporary headwinds persisting

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through the first half of 2026, which then reverse into tailwinds as these are not revenues that are lost, just deferred relative to when they will be recognized in our P&L. Adjusting for these items, total commissions and fees organic revenue growth in Q3 would have been 10% and total overall organic revenue growth would have been 9%, bringing the year-to-date totals for both metrics to 11%.

In Insurance Advisory Solutions, overall organic revenue growth was flat compared to the third quarter of 2024. Removing the impact of the procedural accounting change, overall organic revenue growth was 4% and organic growth on core commissions and fees was 6%. Sales velocity remained top decile at 20% in the third quarter, bringing year-to-date sales velocity to 19%, highlighting our consistent ability to take share and win new business. In fact, as we sit here today, our backlog of won, but not yet booked new business that should bind in the first half of 2026 is sitting at a historic high for our firm, including several seven figure commission and fee client wins from large global competitors, highlighting the demand for our innovative advice and solutions in the marketplace and the growing power and impact of our integrated operating platform.

We are consistently performing in the top decile for new business generation in our industry based on recent industry data showing the median at 12.2% and the top quartile at 15.9%, reinforcing the effectiveness of our go-to market strategy and the positive regard clients and prospects have for our teams and the solutions we are delivering. The impact of rate and exposure, or renewal premium change, was a meaningful headwind at minus 5.7%, reflective of the continued client caution tied to macro uncertainty and reduction in large CAT-exposed coastal property pricing, partially offset by ongoing rate action in certain litigation exposed casualty lines of business.

From where we sit today, we expect the third quarter renewal premium change headwind reflects a floor going forward, from which we will see incremental improvement over the coming quarters; however, we don't anticipate this fully reverses into a tailwind in the near-term, highlighting the importance of our industry leading new business generation capabilities to drive sustainable growth over time.

In our Underwriting, Capacity & Technology Solutions segment, organic revenue growth came in at 16%, driven by continued strength in our multifamily portfolio which grew commissions and fees at 16%, and our commercial umbrella portfolio, which grew organic revenue 15%.

As discussed last quarter, we continued to maintain underwriting discipline in our E&S homeowners book in a rapidly softening property environment, which was a 400 basis point drag on UCTS organic growth in the quarter. In July, we began migrating renewals of the builder book away from QBE into the reciprocal insurance exchange we launched earlier this year, which thus far is performing in line to slightly better than expectations. Additionally, following the transaction we announced with Hippo, we have begun work with the Hippo and Spinnaker teams on a second builder homeowners insurance program, which we expect to launch next year. Over time, we expect it will materially increase our capture rate of Westwood's builder business into proprietary MSI programs, which sits at around a 30% capture rate today. This should unlock a meaningful growth opportunity for our MGA and expand vital insurance capacity for our builder partners and their home buyer customers.

In our Mainstreet Insurance Solutions segment, organic revenue growth was slightly negative, driven by the one-time commission reset on the QBE builder book and continued elevated attrition in our Medicare business due to the broader managed care marketplace disruption. Removing the impact of the one-time commission reset on the QBE builder book, overall organic revenue growth was 8%. As a reminder, this impact will persist until April of 2026, after which it turns into a multi-year tailwind as the commission reduction we are absorbing today reverses back into fee revenues for our attorney-in-fact vehicle which manages the reciprocal exchange.

I want to take a minute to talk about the exciting momentum we are seeing across our embedded home insurance businesses. As I mentioned last quarter, in December we launched our new technology platform and digital experience to support the seamless sale of home insurance at point of mortgage origination and home sale. This quarter, our embedded mortgage and real estate business went live with three new

mortgage and real estate channel partners, bringing the total channel partners live on our platform to 10. Included in the partners who went live on our platform in Q3 was a top 20 mortgage originator who went live in mid-August and has shown very promising proofpoints of success. In our second week post go-live, we sold over 150% of the volume achieved by their previous insurance partner in their best day ever over a two-year period and we have maintained those elevated volumes. These results are enabled by our proprietary technology platform that powers our digital insurance buying experience and the seamless nature of this process in the mortgage and real estate transaction flows. In fact, when a potential homeowner engages through our digital experience, we bind a home insurance policy for them at a rate that is 3.5x what is achieved through non-digital channels.

The power of our technology platform and digital agent experience includes AI-powered real time agent advice, which is driving tremendous momentum in conversion rates and presents opportunity for margin expansion in the medium to long term. We remain bullish on the growth prospects for this business as we continue to make progress towards simplifying the homeownership journey through our embedded technology. Our pipeline of new embedded partners in this channel is as strong as we have seen yet, with our implementation backlog well into 2026.

As we mentioned last quarter, we completed the acquisition of Hippo's homebuilder distribution network in July. We are now live and facilitating the home insurance process for 20 of the top 25 homebuilders across the country. Our builder partners account for 57% of all new homes built in the U.S. and 93% of the homes built by the top 25 builders in the U.S. In aggregate, the partners in our combined embedded home insurance strategies drove over 500,000 home and mortgage closings in 2024, which accounts for roughly 12% of homes sold in the U.S. annually, positioning us as the leading embedded personal lines distribution platform in the \$500 billion premium U.S. personal lines market.

Before I turn it over to Brad to provide additional details on our Q3 financial performance, I want to share a strategic update that marks a pivotal moment in our evolution. Today, we're announcing our 3B/30 Catalyst Program, a three-year transformation program launched during the third quarter of 2025. Catalyst is designed to accelerate the infusion of automation, business process optimization and artificial intelligence to transform and elevate our workforce, building on our two foundational pillars of talent and technology for building the Broker of the Future and meeting our aspirational goal of 3B/30. This initiative is designed not only to elevate the work and impact our colleagues are delivering on a daily basis, but to unlock new avenues for growth.

By aligning our workforce and technology investments with the demands of a rapidly changing market, we are positioning ourselves to accelerate innovation across our client engagement model and insurance product offerings; enhance client and colleague experience through smarter, more agile client service delivery; empower our teams to elevate their focus on high-impact, growth-driving activities; and enable enhanced, real-time decision making by streamlining processes, data and systems.

We anticipate a cumulative transformation charge of approximately \$40 million by the end of 2028 with cumulative savings over the same period of approximately \$50 million, and projected run-rate annualized savings of \$40 million by the end of 2028. We expect savings to ramp over time with no material savings in 2025, \$3 million to \$5 million in savings in 2026, and \$10 million to \$15 million in 2027. We expect charges of \$15 million in each of 2026 and 2027.

The 3B/30 Catalyst program is designed to accelerate our ability to capture operating leverage across our business while simultaneously enhancing growth, both organically and through M&A. Cash restructuring charges of approximately \$40 million reflect a savings to cost ratio of roughly 1.25 times and are largely related to workforce transformation and technology implementation. The charges represent less than 10% of expected free cash flow over the next three years and do not impact our expectation to deliver double-digit free cash flow growth driven by strong growth in revenue, operating income and working capital improvements.

This is an important step forward for our firm—one that reflects our commitment to positioning ourselves for the rapidly evolving technology landscape, further bolstering our status as a leading destination for our industry's top talent, and accelerating our pace to fulfill our vision for the Broker of the Future.

As we move forward, we remain focused on delivering long-term value for our clients, colleagues, and shareholders—driving growth and innovation and expanding margins and free cash flow.

In summary, we're pleased with our third quarter results in such a dynamic insurance market and macro operating environment. While we expect we will continue to face an insurance marketplace in transition, we are increasingly confident in our ability to deliver in 2026 and beyond, as evidenced by the strength of the underlying momentum in the business.

We sincerely thank our clients for placing their trust in us to provide strategic guidance, expert insights, and innovative solutions in an ever-changing risk landscape. We also extend our deep appreciation to our colleagues for their steadfast dedication and tireless efforts in delivering meaningful results for our clients and valued insurance partners.

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 5% and total revenue of \$365.4 million. Looking at the segment level, organic revenue growth was flat in IAS, up 16% in UCTS, and down 2% in MIS.

We recorded GAAP net loss for the third quarter of \$30.2 million, or GAAP diluted loss per share of \$0.27.

Adjusted net income for the third quarter, which excludes share-based compensation, amortization and other one-time expenses, was \$36.5 million, or \$0.31 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 third quarter was roughly flat at \$72.5 million compared to \$72.8 million in the prior year period. Adjusted EBITDA margin declined approximately 170 basis points year over year to 19.8% for the quarter, compared to 21.5% in the prior year period.

Adjusted free cash flow for the third quarter was up 26% to \$42 million, compared to \$33 million in Q3 2024. The increase in adjusted free cash flow was driven by improved working capital, which we communicated would normalize in the back half of 2025.

We ended the quarter with net leverage at approximately 4.1x, down from Q2 2025, and remain on track to hit or exceed our goal of 4x by the end of the year.

On that topic, with the business entering this period of a positive inflection in our financial profile through improved free cash flow, reduced leverage and line of sight to achieve our goal of bringing leverage under 4x and maintaining it there going forward, I want to take a minute to talk about capital allocation priorities.

First, our highest and best use of capital is organic reinvestment in our business. Whether it is the technology platforms we have built to support our leading embedded insurance franchise, continued investment in specialized insurance talent or ongoing investments in scaling our sales force, these investments drive our highest returns measured on both an internal rate of return and return on invested capital basis. We have ample opportunity to continue these investments at elevated returns with the governor on those investments being the margin accretion objectives we have outlined and remain committed to.

Second is M&A, where we have proven over the past five years we can be disciplined allocators of capital to drive enhanced business results and strong financial returns. We are enthused by the quality of opportunities in our pipeline and we plan to remain thoughtful relative to our capital allocation strategy, resulting in an M&A cadence that is more episodic in nature.

Third, and a new leg of the stool for capital allocation at Baldwin behind internal reinvestment and M&A, we are adding share repurchases. We believe this can be an important tool, used opportunistically to deploy capital when we see market dislocations that create compelling return opportunities for our shareholders.

Consistent with the foregoing, based on discussions held with our Board of Directors, once our net leverage is comfortably under 4x, our Board intends to authorize a share buyback plan of up to \$200 million, subject to maintaining our long-term leverage goals.

On the capital management front, in September, we announced the successful repricing of our Term Loan B to SOFR plus 250 basis points, a 50 basis point improvement on the spread or approximately \$5 million of annual interest expense savings. We also had entered into a floating to fixed interest rate swap agreement with a notional amount of \$500 million which exchanges 1-month SOFR for a fixed rate of 3.244%.

Moving to expectations, for the fourth quarter we expect revenue of \$345 million to \$355 million, and organic revenue growth in the mid single digits. We anticipate Adjusted EBITDA between \$68 million and \$73 million, and adjusted diluted EPS of \$0.28 to \$0.32 per share.

Consistent with prior years, we are also sharing a broad initial view of 2026 financial expectations. We preliminarily expect 2026 revenue in the \$1.66 billion to \$1.7 billion range, organic growth in the high single digits, Adjusted EBITDA in the \$380 million to \$400 million range, and adjusted diluted earnings per share between \$1.95 and \$2.10. This would result in a five-year CAGR for all of those metrics in the high teens to low 20s percent. In addition, we expect double digit growth in operating free cash flow. As we've previously indicated, we expect an acceleration of organic revenue growth in the back half of 2026 once we lap the idiosyncratic headwinds discussed.

In summary, we are pleased with the overall performance of the business year-to-date as we continue to navigate a dynamic operating environment. We continue to see incredibly strong internal fundamentals across all three of our segments, and feel confident in our ability to generate durable, outsized results for shareholders.

We will now take questions. Operator?

Operator

Thank you. 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 one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star and two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Ladies and gentlemen, we'll wait for a moment while we poll for questions.

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

Greg Peters

Hey, good afternoon. I think I'd like to start with the results in the IAS segment. You called out a couple of things in your commentary. The flat organic, I think you said excluding the recognition change, I think you said organic was up 4%. Then you talked about the sales velocity being up really strong. I guess what I'm trying to get at is I'm trying to reconcile what we hear from you quarter after quarter, which is really strong

sales velocity and success in the sales velocity and trying to reconcile that with what we're seeing with the IAS organic numbers. Maybe the revenue recognition change is what is the deciding factor here and what changes next year. I'm not sure but I thought I'd just give you an opportunity to talk more about that.

Trevor Baldwin

Hey Greg, it's Trevor. Good evening. Let's unpack a few points there,

One, again, sales velocity of 20% in the quarter, 19% year-to-date, strong results, something I think we're super pleased with, top decile relative to what we see across the industry. And I think strong confirmation around the value that clients and prospects are seeing from our teams and how they go to market.

A lot of confidence around that momentum. You heard me talk about the largest backlog of clients won but not yet booked, including some very large clients from large global brokers. So, the momentum there continues.

The second is the accounting procedural change we mentioned, which is about a \$7 million headwind to revenue and \$5 million headwind to EBITDA in the quarter. Of note, that's not revenue that's gone; that's simply timing. As a reminder, we moved from true up to cash receipt trends on a monthly basis to waiting until policy expiration, and so that's simply revenue and EBITDA that will be booked next year upon policy expirations.

The third is rate and exposure. Renewal premium change was a 5.7% headwind in the quarter, representing kind of a low point in our historical data as well as what we expect to be a floor going forward. I anticipate that we will see that incrementally improve over the coming quarters before normalizing into a neutral if not slight tailwind in the back half of next year,

And as we unpack that data, I think it's helpful to parse it a little bit. As we look at our Property and Casualty business in IAS, rate and exposure was about a 2.8% headwind. You can think about that being probably about one-third rate, two-thirds just sluggish exposure pull-through as we continue to see client caution.

On the Employee Benefits side, it was about an 800 basis point headwind, and you can think about that largely being exposure driven as a result of a softer employment environment. What I would tell you is based on what we're seeing in healthcare cost trend, renewal dynamics, etc., we expect that to normalize back up, certainly by the beginning of 2026 based on expected rate pull-through as a result of elevated medical loss ratios that have been seen across the industry.

As you just step back broadly, we're in a period of, call it 12 to 18 months of renewal premium change headwinds. We called that out on our last call where we expected this year to be a 2% to 3% headwind; we're sitting at 2.5% headwind year-to-date and I would expect that that's still a good number for the full year.

As we think about the impact of that next year, I think that that headwind ebbs and likely flattens out or reverses into a slight tailwind as you get into the back half of next year, as we begin lapping some of these periods of elevated rate pullback, particularly in large CAT-exposed property.

So we feel really good about the underlying fundamentals in the IAS business. We feel good about client retention, We feel good about—really good about new business wins and momentum that continues to build there, and we expect we've got six to nine months of continued, what I'd call insurance and macro market headwinds that are going to show up in the form of ebbing renewal premium change headwinds. But ultimately, as you think about the broader dynamics of kind of where the dynamics of risk are headed, both from a natural catastrophe standpoint and in terms of frequency and severity of events, in terms of social inflation or legal system abuse on casualty, it's hard to imagine a world where renewal premium change isn't at least low to mid single digits over time. If you normalize to that, just taking the 5.7% RPC to flat plus normalizing for the accounting change, IAS is a double-digit growth business in the quarter.

Greg Peters

Just a clarification on the procedural change, so it's a headwind, a couple of quarters of headwind. Is there going to be—once we anniversary it, is there going to be four quarters of unusual benefit then we go back to some normalized rate?

Trevor Baldwin

Yes, that's the right way to think about it, Greg.

Greg Peters

Great. The second question—I guess it's technically the third, but the second question I had was on the organic revenue results and the Underwriting, Capacity & Technology Solutions business. Because that's been really very consistent and strong, recorded strong results, I'm just curious about what kind of competition you're seeing in that marketplace. I guess the genesis behind that would be earlier today Progressive had its quarterly call and they talked about renters' insurance as being an area of focus for them. So it just triggered, how are you—it doesn't show up in your numbers but how are you seeing competitive pressures in your UCTS business?

Trevor Baldwin

Greg, I'd say broadly we have a diversified portfolio of products including both commercial and personal lines, including property, short tail; casualty, mid and long-tail, so there's not a broad brush.

I'd say commentary to answer that question, competitive dynamics, market pressures vary product-by-product, line-by-line.

At a very high level what I would tell you is we're very thoughtful about the products that we go to market with and ensuring that we've been able to identify a way in which we can carve out a real right to win, both around how the product is built and underwritten and highly segmented from a pricing standpoint, as well as from a distribution standpoint and how we have unique access and competitive advantage relative to the way in which our product is being sold into the marketplace.

Specific to your question around renters, I think there's multiple ways in which people go to market for that business. We happen to go to market exclusively as an embedded insurance provider, meaning we're partnering with the ERP technology platforms that property management firms use to operate their buildings and manage their leases and books. And so we've become that kind of embedded solution of convenience. As a result, we're not—our renters' product is not sold in traditional manners. I think as Progressive thinks about their product I suspect it's more like a Geico renters' product or a Lemonade renters' product and that's a more traditional go-to-market strategy and that's just one we're just not competing for that type of business.

Our renters' customer is one that is opting in to our product because they can bind it in less than 30 seconds natively in the leasing workflow. It's the solution of convenience. We in fact are going to be launching next year a new innovative renters' product that is embedded into the rent ledger and so kind of naturally embedded into the rent payment, which we're really excited about some of the momentum that could drive and the continued building penetration.

So, we feel good about our competitive positioning there. It's not that we don't have competitors, we do, but this a space we've been in for a while; we have leading market share and we feel really good about our right to win and the competitive moats we have as a result of our technology platform and how that enables our go-to-market.

Thanks for the questions, Greg.

Greg Peters

Yes. Yes, thank you.

Operator

Thank you. Our next question comes from Charlie Lederer with BMO Capital Markets. Please go ahead.

Charlie Lederer

Hey, thanks. A quick on your preliminary outlook for 2026 organic of high single digits. What are you if anything embedding for the attorney-in-fact fees on BRIE and also the embedded mortgage channel revenue?

Trevor Baldwin

Hey Charlie, this is Trevor. I would tell you that we have nominal assumptions built in for the attorney-in-fact, and while I wouldn't quite call it nominal on embedded, it's certainly not heroic. That's a business we expect to build over time. We're super excited about the momentum we have there. You heard me share some of those statistics around the early proofpoints of success with some of our mortgage partners that have gone live on the platform. So, we're quite enthused.

We've got a terrific backlog. Our digital agent workflow and kind of how it's embedded into the mortgage process, how it enables a seamless insurance buying and binding experience is driving really, really compelling conversion statistics. When a potential homeowner opts in to our digital experience, we bind a home policy for them 3.5 times the rate at which we do through traditional channels, and as a result we're already ahead of early kind of pro formas and expectations around conversion rates in the mortgage channel. We're super excited. Lots of momentum there but we don't—we anticipate that has a growing impact on our financial results but not a material impact on 2026.

Charlie Lederer

Thanks. That's helpful. Then maybe just another one on IAS. If I take out the pull-forward that you guys called out last quarter and then take out some of the headwinds this quarter from the accounting change, and then presumably the pull-forward was taken out of this quarter, I mean the acceleration is pretty pronounced. I guess, I mean is that just sales velocity? Because the sales velocity was a little slower, so I'm trying to kind of connect the dots. Maybe it's just business mix? I don't know if there's any color you can add.

Trevor Baldwin

I guess I'm not fully following the question, Charlie. Sales velocity was 20%, so quite strong. When you say pull-forward, you mean the impact of the procedural accounting change and how that pushes out the timing of recognizing revenue?

Charlie Lederer

I was more talking about, I think you guys talked about two energy clients last quarter that bumped up the IAS rev organic. Maybe I'm....

Trevor Baldwin

Yes. Yes, those were pulled forward into the second quarter, correct.

Charlie Lederer

From the third quarter, right? Or was it from a...

Trevor Baldwin

That's correct. That's correct.

Charlie Lederer

Yes. Okay. So I guess if you kind of factor that in, it's a pretty pronounced acceleration, so I don't know if that's just business mix or I guess I was just trying to understand.

Trevor Baldwin

I'm following you, Charlie. So, yes, I think I would point you to rate and exposure and the headwinds that created as an offset, but, yes, as you heard, we're feeling really good about the underlying momentum in the IAS business. It's somewhat masked by the market renewal premium change dynamics and this accounting change that's just simply pushing revenue into next year. But, you know, at 20% sales velocity, that's as good as it gets. And we're super pleased with the momentum and the backlog of new business, and how that positions us into 2026.

Charlie Lederer

Got it. Thank you.

Operator

Thank you. The next question comes from Elyse Greenspan with Wells Fargo. Please go ahead.

Elyse Greenspan

Hi. Thanks. I guess I have a follow-up, trying to parse together some of just the commentary on IAS, and specific to the guide, right, I think you guys said organic mid-single digits, right, I think in the fourth quarter. What are you assuming for IAS? And then within the guidance next year for high single-digit organic, I think you said that's back-half heavy, so do you expect to start in the low single digits and then pick up? Then, also, what does that imply, I guess, for IAS embedded within the guide next year as well?

Trevor Baldwin

Hey Elyse, this is Trevor. Consistent with past practice, we're not going to get into segment level OG guides. What I would say is we feel good about mid-single digits for Q4 across the business. As we look towards 2026, we feel good about high single digits and we would expect organic growth to accelerate through the year, particularly in the back half, as we lap the two idiosyncratic headwinds that we called out that come to an end then.

As you've overheard in some of the earlier Q&A, we have strong new business momentum in the IAS business. We have had pretty meaningful renewal premium change headwinds; some driven by rate, some driven by exposure. We expect that we've seen the floor there and that that begins to ebb. But I would still expect RPC headwinds in the first half of next year before that begins to normalize.

Elyse Greenspan

And then within the guidance for next year, within the revenue guide what are you assuming for M&A? I know obviously it depends upon when the deals close, but what's embedded within next year's guidance for any level of M&A?

Brad Hale

I would say we have a nominal amount of M&A embedded into next year's guidance. We continue to maintain a strong pipeline with a lot of really interesting opportunities, but it's nominal to the guide we provided for '26.

Elyse Greenspan

And then the savings that you guys outlined, like 3 to 5 next year, right? I think 10 to 15 in '27. Is the expectation that those will all fall to the bottom line and help margin, or is there some level of reinvestment being contemplated as well?

Trevor Baldwin

Those savings articulated are net of reinvestment.

Elyse Greenspan

Okay, great. Thank you.

Operator

Thank you.

Trevor Baldwin

Thanks, Elyse.

Operator

Our next question comes from Pablo Singzon with JPMorgan. Please go ahead.

Pablo Singzon

Hi. Good afternoon. Maybe first one for Trevor. I know you spoke about Employee Benefits earlier on this year. I was a bit surprised by your update today. I think you had mentioned something like an (inaudible) headwind there versus (inaudible) in P&C. Is there anything unique about the employees you place insurance for?. Maybe they work in industries that are more economically sensitive? Just given the weakness in the labor market that have been being widely reported on today, what gives you confidence that you will see a recovery in IAS OG next year?

Trevor Baldwin

Hey Pablo. No, I don't think there's a particular uniqueness in our Employee Benefits client base. I mean, as I think about where it skews heavy, our largest concentration of benefits clients would be on the west coast with a pretty heavy bent towards technology. So maybe we skew a little bit heavier there, which would make sense just based on some of the headcount trends we've seen relative to kind of early adopters on AI and things of that nature.

As you mentioned, our confidence around the OG and the acceleration heading into next year, that's less about—that doesn't contemplate a stronger labor market. That contemplates kind of real-time visibility that

we have now into the cost of healthcare and the cost of health insurance and how that ultimately will inflate premiums.

There's been a pretty significant increase in healthcare costs trend this year, well documented in the managed care space but I would say that that also exists in the traditional pre-65 marketplace as well. And while I would say that it's good in multiple ways for our business: one, as costs go up, demand for our advice and our innovative solutions goes up; our scale and the breadth of kind of tools and capabilities enable us to bring value in ways that many of our smaller competitors are just unable to do; and it also drives ultimately up costs for a business that's largely commission oriented. When premiums are up, as you know, our revenues tend to trend in a similar direction.

Pablo Singzon

Okay. Thanks Trevor, that's helpful. Then second question is just on the QBE and the ramp up in its attorney-in-fact fees, right? I guess the question there is holding premium volumes constant and this goes to basically the gap between the commission you lost and how much you'll earn in fees, right? How many years will it take you to get back to your previous state assuming premium volumes are the same, right?

Trevor Baldwin

We expect it to take two to two and a half years from 5/1 of 2026. Importantly, Pablo, for the time being we account for that AIF on the equity method, and so it will not come into revenue; it will come into EBITDA.

Pablo Singzon

Okay. Thank you.

Operator

Thank you.

Trevor Baldwin

Thanks.

Operator

Our next question comes from Andrew Andersen with Jefferies. Please go ahead.

Andrew Andersen

Hey, good afternoon. Sorry, maybe some more questions on the reciprocal. I think in response to an earlier question you said you were anticipating a nominal benefit from the reciprocal in organic. I guess, is there any part of this going into organic? Could you just maybe parse that out a bit?

Brad Hale

Yes, Andrew. Thanks. It's Brad. No, there's no benefit to organic on the reciprocal. I think that was in reference to the other part of that question. The only benefit of the AIF is the direct earnings benefit where we get 75% of the earnings under the equity method.

Andrew Andersen

Okay. Thanks. Then when we're talking about this turning into a tailwind, and you kind of just mentioned a moment ago it sounds like it could take two years to fully flip over and I think the fee income would be on

kind of the policies binding and on a lookback. So I guess I'm struggling with how it turns into a tailwind in the second half of '26. It feels like maybe you're past the peak of the headwind, but there still is a headwind persisting until we get to the end of two years. Is that the right way of thinking about it?

Trevor Baldwin

No. No, it's not. On 4/30/2026, the headwinds from the commission stepdown going from 31 to 26 on the QBE program cease to be a headwind because the entire portfolio will have annualized onto that 26% commission rate. At the same time, the attorney-in-fact, which we own, will be accruing revenue in at 5% of premium as earned into the reciprocal, and that's an important distinction because commissions are booked up front upon policy binding, whereas AIF fees are booked over life of the policy ratably. And so there is a difference in the earn-in rate from a timing perspective which drives some of this, and then there's also the timeline that it takes to roll all of the premium off of QBE in all of the states we're doing business into the reciprocal. And so while the first 12 months you fully absorb the commission reduction, it takes us a couple of years to fully roll all of that premium off of QBE in all of the states we're doing business in fully into the reciprocal. The AIF does not begin earning AIF fees until those premiums renew into that reciprocal vehicle.

Importantly, we started with Texas on July 1, which is the largest state in the QBE portfolio, and we'll likely be following thereafter with California which is the second largest state. And so we intend to get through the states with the largest volumes of premium next year and have the vast majority of that premium rolling in; as a result, the AIF fees, they're already beginning to earn, they're just not meaningful at that point in time, but they will build month-by-month, and after that two to two and half year time period, should be fully run-rated in.

Andrew Andersen

Thank you. Really appreciate the walk-through.

Brad Hale

Yes.

Operator

Thank you. Our next question comes from Brian Meredith with UBS. Please go ahead.

Brian Meredith

Hey, thanks. Two questions. Just first one, Trevor, I'm just curious. Your assumptions as far as how much you're going to be able to renew in the reciprocal in your guidance and what is it looking like so far?

Trevor Baldwin

We are currently renewing at a rate that is slightly better than our assumption coming in. We are constraining that with a higher cancellation reserve out of, I'd say an appropriate degree of caution, but thus far we've seen cancellation rates level out at a level that is below what our initial assumptions were.

Brian Meredith

Great. That's helpful. Second question, just big picture, back on the capital management—and I appreciate the color Brad did give on getting below comfortable of 4x before you buy back stock. But just given where your stock is trading right now and it feels like it's obviously below its intrinsic value, why wouldn't you use some of the free cash flow you're generating right now and buy back some stock a little bit right now? It seems like a pretty good return on investment.

Brad Hale

Yes. Thanks, Brian. Look, we do, as we mentioned in the prepared remarks, intend to authorize a buyback program once our leverage is comfortably below 4x. We've been incredibly vocal publicly about reaching that guide and the critical importance of financial flexibility that comes post reaching that sort of less-than-4x.

Importantly, we don't intend to use buybacks programmatically. Really, this adds a tool to the toolkit for us when we're seeing periods of dislocation in our stock price. It is very clearly a third option for us for capital deployment after, as we talked about, organic investments and M&A. But certainly there are times when it makes financial sense, as you indicated.

That decision point will really be whether we feel like we can generate significantly better risk-adjusted returns at that point in time through a buyback versus deploying capital through M&A, and we leverage various valuation techniques and metrics as well as our line of sight to the M&A pipeline in making that decision.

So, you know, 4x remains the priority and that's why we're not stepping in now.

Brad Hale

But Brian, we agree with your general sentiments which is it is a very attractive investment opportunity right now. We just feel like we've made very strong commitments to our shareholders around prioritizing getting leverage under 4 before all else, and so we'll be there shortly and then we'll see where things stand.

Brian Meredith

Thank you.

Operator

Thank you. Our next question comes from Tommy McJoynt with KBW. Please go ahead.

Tommy McJoynt

Hey guys, good evening. When you give us that \$40 million annualized run-rate saving from the expense program, what expense line denominator should we reference to get to—as a result of thinking about Baldwin's automation efforts are going to take out X percent of expenses out of the business.

Trevor Baldwin

You should largely think about that as being related to workforce transformation.

Tommy McJoynt

Okay. Then you did mention the 3B/30. I don't know if I just didn't hear it, but when you first introduced it a year ago it was 3B/30 in five. Is there a timeline for that program still? Is it still the same timeline?

Trevor Baldwin

Hasn't changed. Same timeline.

Tommy McJoynt

Sounds good. Thank you.

Trevor Baldwin

Thanks.

Operator

Thank you. Our next question comes from Pablo Singzon with JPMorgan. Please go ahead.

Pablo Singzon

Hi. Thanks for taking my follow-up. On the UCTS business, I think about \$50 million of the organic revenues (inaudible) this year are arising from a rental program converted to a captive format. I guess the question there is, do you expect that business to grow next year and do you expect further conversions? Because effectively what's happening is that instead of booking (inaudible) a premium and that helps organic. So I'm just wondering your plans for at least that piece of UCTS. Thanks.

Trevor Baldwin

Hey Pablo, we would expect it to continue to grow but not at the rate on a relative basis that it is now. We think about that captive as really being an opportunity to optimize the economics on a very well run, low-volatility program and so you should really think about that as our way of accessing the appropriate level of supplemental and contingent revenues on a high performing program.

Pablo Singzon

Got it. Thanks, Trevor.

Trevor Baldwin

Thanks, Pablo.

With that, I think we're going to wrap up for the evening. So, wanted to thank you all for joining us on the call. We're really excited for the growing momentum we have across our business as we head into 2026.

In closing, I want to thank our colleagues for their hard work and dedication and 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

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