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Hippo Holdings Inc. NYSE:HIPO

Earnings Call

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Call Participants

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Yaron Joseph Kinar
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Presentation

Operator

Â Ladies and gentlemen, welcome to theÂ Hippo Holdings Second Quarter 2024 Earnings Call. My name is Aida, and I will be coordinating your call today. [Operator Instructions]I will now hand you over toÂ Mark Olson to begin.Â

Mark Olson

Good morning, and thank you for joining Hippo's 2024 Second Quarter Earnings Call. Earlier today, Hippo issued a shareholder letter announcing its Q2 results, which is available at investor.hippo.com. Leading today's discussion will be Hippo President and Chief Executive Officer, Rick Mchron, and Chief Financial Officer, Stewart Ellis. Following management's prepared remarks, we'll open up the call for questions. Before we begin, we'd like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that are based on management's current expectations as of the date of this presentation. Forward-looking statements include, but are not limited to, Hippo's expectations or predictions of financial and business performance and conditions and competitive and industry outlook. Forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results and/or from our forecast, including those set forth in Hippo's Form 10-Q filed today and our Form 10-K filed earlier this year. For more information, please refer to the risks and uncertainties and other factors discussed in Hippo's SEC filings, in particular, in the section entitled Risk Factors in our Form 10-Qs and Form 10-K. All cautionary statements are applicable to any forward-looking statements we make whenever they appear. You should carefully consider the risks and uncertainties and other factors discussed in those SEC filings do not place undue reliance on forward-looking statements as Hippo is under no obligation and expressly disclaims any responsibility for updating offering or otherwise revising any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. During this conference call, we will also refer to non-GAAP financial measures such as total generated premium and adjusted EBITDA. Our GAAP results and a description of our non-GAAP financial measures with full reconciliation to GAAP can be found in the second quarter 2024 shareholder letter, which has been furnished to the SEC and is available on our website. And with that, I'll turn the call over to Rick McCathron, our President and CEO.

Richard Lyn McCathron

President, CEO & Director

Thank you, Mark, and good morning, everyone. We have added to the momentum we created over the past year and delivered an improved second quarter of 2024. Our plan to reduce the volatility in our homeowners program past its first meaningful test as we delivered a substantial year-over-year reduction in catastrophic losses despite the broader industry suffering another quarter of elevated severe weather. Beyond this, we continue to leverage our proprietary technology to further improve the efficiency of our operations, resulting in increased customer lifetime value and lower customer acquisition costs. In parallel with these efforts, we delivered another quarter of strong top line growth and doubled down on our new homes channel, where we are improving access to insurance for consumers purchasing new homes with some of the country's largest homebuilders. The second quarter presented the best opportunity yet for Hippo to showcase the benefits from the work we have been doing to reduce our business exposure to wind and hail event compared to the second quarter of last year and excluding the positive benefits from favorable reserve development, we improved our PCS CAT weather loss ratio by 83 percentage points and reduced our weather-related lost dollars by 73%. This improvement was enabled by our technology, which has been fundamental to our team's ability to plan and rapidly execute the needed changes to our program. The impact of these changes will continue to earn through our results over the next 3 quarters. We believe we are fast approaching the time when losses from severe convective storms will no longer be the primary driver of our bottom line financial results. In my last letter, I talked about the role our agency plays in finding a policy for every customer, whether or not we are the carrier. The ability to place customers with other carriers as an agency has allowed us to maintain high retention rates and to

drive continued total generated premium growth while focusing on managing our exposure to high CAT geographies. Our agency also significantly contributes to improved customer satisfaction and our premium growth through personalized cross-selling opportunities of complementary products offered by other carriers like earthquake, flood, auto, umbrella and more. Beyond the benefits to our customers, there are also significant benefits to our productivity and cost structure. In the second quarter, we realized a 60% year-over-year increase in agent productivity, a 17% year-over-year increase in our lead conversion rate and a 23% year-over-year increase in our cross-sell rate, allowing us to grow our top line while driving additional operating leverage. All of the efforts we have focused on this past year are now bearing fruit. Our business now has inherently less exposure to Wind and Hill is growing more quickly because we are better meeting our customers' needs and is operating in a more efficient and cost-effective manner. We remain confident that we can achieve our long-stated goal of positive adjusted EBITDA by the end of this year. I could not be prouder of the work our team has accomplished this past quarter and look forward to sharing more of the benefits of their work with you in future quarters. Now I'd like to turn the call over to our Chief Financial Officer, Stewart Ellis, to walk through the highlights of our Q2 2024 financial results as well as our expectations for the future.

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Thanks, Rick, and good morning, everyone. The second quarter of 2024 was a critical inflection point for Hippo. Not only did we extend our track record of consistent year-over-year improvement in our core metrics, we also cleared what was arguably our biggest hurdle to achieving the bottom line guidance we issued at the beginning of the year, seasonal weather exposure associated with wind and hail in the Midwest. As I walk through the key lines of our P&L, I'll explain how the drivers of these results give us continued confidence in our path to positive adjusted EBITDA. I'll also walk through why we are comfortable raising our top line guidance and maintaining our bottom line guidance despite higher-than-expected wind and hail losses during the quarter. In Q2, TGP grew 20% year-over-year to \$380 million, driven by continued strength in our Services and Insurance as a Service segments. -- growth in placements of policies for customers with third-party carriers led to a 38% increase in our services TGP and growth of existing programs helped our insurance as a services TGP to grow by 23%, bringing the collective premium from these 2 segments to 83% of our total TGP, up from 73% a year ago. This growth more than offset the 27% year-over-year reduction in TGP from our HHIC segment, the result of managing our exposure to high CAT geographies. As we look to the second half of the year, we expect year-over-year TGP growth to accelerate relative to the levels achieved in Q1 and Q2 as we complete the cat exposure management at HHIP and the growth in our new homes channel is no longer offset by reductions in other areas of our portfolio. Revenue growth in Q2 again outpaced TGP growth, increasing 88% year-over-year to \$90 million, up from \$48 million in Q2 2023. Much like last quarter, the higher retention of TGP at HHIP and the volume increases at the insurance of the service and services segments were the primary drivers of the growth. As we have discussed previously, our increasing confidence in both the magnitude and the predictability of our loss ratio has enabled us to retain a greater share of the premium we write on our own balance sheet. As a result of this higher premium retention, net earned premium as a percentage of gross earned premium in our HHIP business rose to 64% in Q2, up from 14% a year ago. Insurance as a Service revenue growth was driven mostly by the premium growth from existing programs, augmented by slightly higher risk retention with some of the programs. In our Services segment, revenue grew more slowly than TGP due to the continued mix shift from our agency, where we earn commissions on a gross basis to our first Connect platform, where we take a percentage of the gross commissions paid by carriers to our agency customers and recognize revenue on a net basis. As we look to the second half of the year, we expect revenue to continue to grow faster than TGP as we complete the transition from our old quota share reinsurance structure to our current XOL structure and benefit from the ability to retain more of the written premium for Hippo.

Our Q2 loss ratio results for HHIP were a significant win for the business. despite a difficult weather quarter for the homeowners insurance industry and slightly higher-than-expected losses from wind and hail, we demonstrated the effectiveness of the measures we have been taking to manage our exposure to these perils. Because of the actions we've taken and excluding the benefits of favorable prior year development, we saw our HHIP-PCS cat loss ratio improved by 83 percentage points year-over-year to

39%. On a gross basis, this represented approximately \$30 million of PCS losses in the quarter, up \$12 million from Q1 this year, but down \$80 million from Q2 of last year. By this time next year, when the underwriting changes have had a chance to work their way through our full portfolio, severe convective storm should be a less significant driver of our bottom line financial results. Looking ahead to the second half of 2024, we expect PCS CAT weather losses of HHIP to decline significantly off their seasonal peak in Q2, which is consistent with the guidance we shared earlier this year. Beyond the weather, we also saw continued improvement in our HHIP/non-PCS loss ratio. Again, excluding the benefits of favorable prior year development, this ratio improved by 3 percentage points year-over-year to 60% despite temporary mix shift driven pressure on this number due to the reduction of policies in high CAT geographies, which, because a greater portion of their premium is for expected cat losses have a lower nonweather loss ratio. As we complete the high cap exposure reductions in the second half of the year, we expect the benefit from rate action in prior quarters to become more dominant and to drive a material improvement in this metric. The combination of year-over-year improvements in both weather and nonweather loss ratios I just mentioned, drove a substantial improvement in our total HHIP gross loss ratio, which improved by 86 percentage points to 99% from 185% in Q2 of last year. This portfolio level improvement, combined with the improvements to our reinsurance structure, drove an even larger improvement in our HHIP net loss ratio, which came in at 113% during the quarter, an improvement of 475 percentage points versus Q2 of last year. Moving further down the P&L. As we discussed last quarter, the full scope of the benefits from last year's efforts to streamline our cost structure were realized in Q1. We continued our discipline in these areas in Q2, holding our fixed expenses flat quarter-over-quarter as our top line continues to grow. While we expect to hold fixed expenses at roughly this level for the rest of the year, we do not expect this to have a negative impact on our growth. As Rick mentioned earlier, we have made investments in technology that has helped our agents become more productive and that have significantly improved our conversion and cross-sell rates. The cumulative benefits of these changes have enabled us to continue to grow while reducing sales and marketing dollars spent by 41% year-over-year. Relative to Q2 of last year, our GAAP sales and marketing, technology and development and general and administrative expenses collectively declined by \$16 million, a year-over-year decrease of 28%. When combined with the increases in our revenue over the same period, these costs fell by 74 percentage points of revenue, shrinking from 120% of revenue in Q2 2023 to 46% of revenue this past quarter. We expect to continue to hold these costs at these levels in the second half of the year, while our revenue continues to grow. And as I'll discuss in a moment, this is one of the factors that will help us converge to positive adjusted EBITDA in Q4. Turning now to adjusted EBITDA. In Q2, our adjusted EBITDA loss came in at \$24.9 million, a \$62.8 million improvement versus Q2 of 2023. The main driver of the year-over-year improvement in adjusted EBITDA was a 94 percentage point decrease in our HHIP gross loss ratio, complemented by an improved reinsurance structure, better operating leverage and continued growth in our businesses that are less susceptible to weather and underwriting volatility, insurance as a service and services. Quarter-over-quarter, our adjusted EBITDA loss widened by \$5 million, driven by a \$12 million quarter-over-quarter seasonal increase in gross PCS cat losses at HHIP, offset by improvements in other areas of the business. And our gross PCS cat loss has been consistent with the actuarially expected values that form the basis for our initial 2024 guidance, our adjusted EBITDA loss would have stayed flat quarter-over-quarter despite the entire industry experiencing seasonally higher weather. I'd now like to update our guidance for the second half of 2024. With the second quarter behind us, we now have a clearer line of sight to Hippo's path to positive adjusted EBITDA and the trends that we expect to drive that convergence are the same trends that explain why our Q2 adjusted EBITDA loss widened by a far smaller magnitude than the seasonal increase in weather losses. To recap the key drivers of convergence to positive adjusted EBITDA that I mentioned earlier, in the second half of the year, we expect TGP growth to reaccelerate as we complete the adjustments to our exposure in high CAT geographies and as the growth in our new homes channel is no longer offset by reductions in other areas of our portfolio. This will start in Q3 but will be much more meaningful in Q4. We expect revenue to continue to grow faster than TGP as policies written in 2023 continue to renew onto our new reinsurance structure, and we were able to benefit from the full monetisation of the risk we are retaining. We expect PCS CAT weather losses to decline significantly off their seasonal peak in Q2, and we expect our non-weather loss ratio to improve significantly as previous rate action earns in and is no longer offset by the mix shift away from higher volatility, higher premium policies toward lower volatility, lower premium policies. We expect fixed costs to remain roughly in line with Q2 dollar levels, even as our top line continues to grow, aided by significant improvements in our

efficiency that has been enabled by our technology platform. And finally, we expect minimum cash and investments, excluding restricted cash to be more than \$450 million when we turn adjusted EBITDA positive in Q4. The results of these trends and assuming the expected PCS CAT load we provided in our shareholders letter, should enable our adjusted EBITDA loss to decline from Q2 levels to somewhere between \$9 million and \$11 million loss in Q3 before turning positive in Q4 where we expect to generate between \$5 million and \$6 million in positive adjusted EBITDA. And with that, operator, I'd now like to open the floor to questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Yaron Kinar from Jefferies.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Congrats on the quarter. Rick, I want to start with a comment in your shareholders, that I think you also repeated on the call just now, where you attribute the PCS CAT weather loss ratio improvement. First and foremost, the technology. And I would have thought a lot of blocking and tackling and just pulling out of certain regions, things that you've discussed in the past, but things that aren't necessarily technology-driven. So I'd love to hear maybe a little more about the role technology played in this.

Richard Lyn McCathron

President, CEO & Director

Â This is Rick. Great clarifying question. And you're right. And to be clear, the blocking and tackling things like the price increases that we put into the market, the coverage changes, which would be inclusive of deductible changes, exposure management, exposure reduction in high concentrated areas. That's the underlying reason for the improvement. When we talk about technological advancements, you've got to keep in mind that this is somewhat dynamic. So when we put higher deductibles in the market or we put at higher rates in the market, you really don't know what percentage of customers are going to actually accept and renew with the higher deductibles or accept the higher rates. So we have a living breathing technological platform that allows us to look at these real time and iterate real time on adjustments we need to make to our improvement. And that's where the technology really comes into effect. It's our ability to analyze those real time, make the adjustments real time and put those adjustments into market. So the technology really accelerates and I think is an attributing factor of how quickly we dramatically improved the loss ratio. So I hope that helps clarify.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Definitely. And then my second question, and this may be more towards Stewart. With the new EBITDA guide that is a bit lower at the midpoint. Can you maybe help us think through the puts and takes again? So better top line growth now expected relative to the prior guide, the operating leverage that comes with that is also better. So it looks like it's a loss ratio that's really driving that deterioration. And I guess, when is that true? And two, assuming it is true, is that mostly backwards-looking, namely, the loss ratio in the first half was a bit worse than initially expected? Or is it also forward-looking into the second half?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

It's a good question. Happy to try to clarify. So I think, first, you're absolutely right. Our expectations for both revenue being higher and TGP being higher and OpEx remaining flat are a correct interpretation of what we've said. And our loss ratio expectations for the year are slightly worse. But that's almost entirely a PCS result of the Q2 weather. Q2 was a massive improvement over last year. And I think we can attribute to all of the reasons that we've talked about already on the call, but also what Rick mentioned. But it was a little bit higher than our expectations. And so when we think about PCS broadly in the financials, I think in the beginning of the year, we guided to around 20% annual PCS load. If you look at the Q2 results, and you just maintain kind of our expectations going into the future, you get mostly to where we are today, which is a 24% annual PCS load. So most of the difference there is backward looking rather than forward-looking. In -- yes, in the beginning of the year for non-PCS we guided to around somewhere between 52% and 58% on an annual basis with a midpoint of \$55 million. Revised guidance there is 55% to 57% on an annual basis with a midpoint of 56%. So it's mostly a TCS driven thing. The thing that gives me greater confidence today as we think about the overall EBITDA for the

future is that the adjusted EBITDA result in Q2, the loss widened by a smaller amount than the weather increased relative to Q1. And the factors that are driving that outperformance, I guess, in other areas of the business are the same factors that are driving the convergence to positive adjusted EBITDA in Q4. And I should also probably say that the weather -- the PCS loss ratio guidance for the year, the updated guidance includes everything we know today about events that have happened in Q3.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Got it. If I could sneak one last one in. If we fast forwarded to 2Q '25 and to supply the same PCS events that we just saw in the second quarter of '24 and assume that you've completed the of the pullback from CAT-exposed geographies. All else equal, what would you have expected or what would you expect the PCS CAT loss ratio to be?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Yes. Happy to take that one as well. It's just as a reminder, it's not just exposure management and higher CAT geographies. It's also changes to terms and additions like the deductibles that Rick mentioned. So if you were to do a like-for-like same weather events after all of these changes have rolled through our portfolio, we would expect an additional 60% reduction in lost dollars compared to Q2 of this year.

Operator

The next question is from Thomas McJoynt from KBW.

Unknown Analyst

It's [Indiscernible] on for Tommy. My first question is on the PCS loss ratio guidance. So what are you guys based on? Is it based on historical normal year or above average like the industry forecast according for?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Thanks for the question. The updated PCS guidance is based on our actuarial expectations given the geography and the portfolio that we have. And it's been adjusted and updated to reflect, as I said a moment ago, everything that we know today about events that have happened so far in Q3.

Unknown Analyst

My second question is on the near-term gross written premium ratio since that you guys have a new reinsurance structure now. So how should we think about the near to gross written premium ratio for different segments?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Happy to take that one. I think just to rewind a bit, a year or so ago, we were still fairly heavy users of quota share reinsurance, where we're feeding off a proportion of the premium and a proportion of the losses. Those quota share reinsurance treaty had some loss participation features in them that in hindsight meant that we were retaining a greater share of losses than we were at the premium. And so coming into 2024, we decided to make a change to our structure and move from being a heavy buyer of quota share reinsurance to a more traditional excess of loss structure. That means that we're retaining more of the premium on our balance sheet and getting paid for the risk that we're retaining. We will still use excess of loss reinsurance where we seed off a portion of the premium to protect the tail, but we are able, as a result of the XOL structure and using less quota share to retain more of the premium, which means our earned premium is going to be growing year-over-year faster than our TGP as we shift to the new structure. We still have some policies that have not yet renewed in 2024 that were on the 2023 quota share reinsurance treaty. And so as those policies renew, not only will we have a greater share of the

premium that will earn in over the next 12 months, but they will also renew in the areas that we've been talking about so far in this call on to the new deductible structure and on to the new terms and conditions, which we think which will be beneficial for the loss ratio improvement we're expecting going forward.

Richard Lyn McCathron

President, CEO & Director

Yes, Dean, if I could add one thing. This is Rick. The only reason we were comfortable to shift our reinsurance strategy away from quota share is because of the underlying confidence we have in the loss ratio and portfolio improvement. If we didn't have strong confidence in that, we still likely would have been purchasers of more quota share, but both from an underlying attritional loss ratio perspective and the work that we are doing on our project volatility, which is the CAT management deductible change. All of those things gave us the confidence to shift the rein structure, and that shift is paying off.

Operator

Next question is from Pablo Singzon from JPMorgan.

Pablo Augusto Serrano Singzon

JPMorgan Chase & Co, Research Division

Can you please talk about the competitive position of your home products and regions where you're still writing? I presume you want to be naturally price out of areas that are not attracted to you. But were you still right? How do you compare to the competition as far as features concerned in compensation for the agents?

Richard Lyn McCathron

President, CEO & Director

Â Yes. Pablo, great question. This is Rick. A couple of different facets to your question. So first, I think we've been very clear that as a company, we are only going to write where we have an expected loss ratio that is positive and where we are avoiding catastrophic aggregation concerns. So in those areas where we have opened up, we are confident that we have both a product and tech advantage and a consumer adoption advantage. -- predominantly in our new home channel. This is something that we've talked about doubling down on. We've deployed new technology in that channel. We have additional third-party carrier partners in that channel because remember, the customer comes essentially in a digitized way into our agency. And then we choose what the best solution is for the customer. Sometimes it's the Hippo new home product, sometimes it's third-party new home product. So the additional technology has allowed us to better aggregate that business amongst various players. We have new builder partners. -- in that channel as well. So we're very excited. As Stewart mentioned, as we complete our aggregation management and profitability efforts, which is currently a headwind to growth generally, that will become a tailwind because we will no longer be eliminating that business, and we will continue to grow in channels where we have a strong expected loss ratio. So I think that's the fundamental answer to your question.

Pablo Augusto Serrano Singzon

JPMorgan Chase & Co, Research Division

And actually, that's a [Indiscernible] question. I wanted to hear more about the home business segment, how fast is it growing? And what's driving the growth? Is it new partners, increasing penetration. I think there's a recognition that, that segment of Pomona is particularly attractive, right, from an industry perspective. And I'd just be curious to hear sort of what's going on from your perspective in that business.

Richard Lyn McCathron

President, CEO & Director

Yes, Pablo, good question. At this point, what we are excited to share is really 3 different facets in which we are doubling down and growing that channel. First, as I mentioned, additional carrier partners that come alongside Hippo's product and offered to customers. Second is we are adding more builders to the platform. And third is our operational metrics continue to improve. So that's the combination of improvement in opt-in rate for customers wanting to receive a quote improved attach rate for those

customers and improved unit economics because of the changes that are going through the rating portfolio and the work that we're doing. So we'll have more to share next quarter on this. But at this point, it's a combination of all 3 factors that have very much given us confidence in growth in that particular gene.

Operator

The next question is from Yaron Kinar from Jefferies.

Yaron Joseph Kinar

Jefferies LLC, Research Division

I'm back with a couple of follow-ups, if I could. One, within services, can you provide the portion of TGP coming from First Connect?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Yaron, it's Stewart. This is -- it's not a level of detail that we have previously provided. And so happy to take this as a suggestion as we think about our 2025 reporting. When we started, it was not as significant as it is today. So it's trending in a direction where obviously, it makes sense to start thinking about breaking that out. But we'll consider that for next year.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Â And then the other question I had with the re-acceleration of TGP, is that really coming only from HHIP? Or do you also expect services in [Indiscernible] to accelerate in the second half of the year?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

So services and insurance as a service have been growing quite helpfully I think, in 2024. I think the bulk of the acceleration that you're going to see comes from, as we talked about the headwind associated with the exposure management that we're doing at HHIP going away and allowing the underlying growth in the new homes channel to become a more dominant factor in the broader business. That will also benefit the services segment because as you know, the the agency within our business also sells our Hippo home insurance product. And so the growth of the Services segment has been despite the exposure management actions at HHIP. Obviously, that gets eliminated in the eliminations when you look at the consolidated results, but I do think it's important to understand that the growth of the Services segment is also -- by itself has been fairly rapid. But the acceleration is due to almost entirely, I think, to the kind of winding up of the changes that have been rolling through the portfolio at HHIP for the first couple of quarters and we'll continue through October of this year.

Richard Lyn McCathron

President, CEO & Director

Yes, Yaron, this is Rick. I'd like to add a couple of things to what Stewart said. As I mentioned in the letter, -- we are also getting far more efficient with things like cross-sell within the Services segment. So we anticipate continued improvement in that arena, which will do a couple of things. One, it will increase -- increased TGP because we will be selling more products to each individual customer. And ultimately, it will continue to help drive down LTV to CAC for that same reason. And we expect that to continue to improve as we're putting significant effort in both technology and operational prowess within the Services segment.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Okay. And maybe circling back to Stewart's point around the reacceleration of growth in HHIP also ultimately impacting the services segment. Would that also suggest then that the delta within the service

segment between TGP growth and revenue growth would start inflecting downwards again because more of the growth potentially would be from the agency business as opposed to First Connect?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Â I think when we were -- I'm not sure I 100% understood your question. So if I've misunderstood, please let me know, and I'm happy to try to take a different angle. But when we report results within the agency, we -- the agency revenue is the commission that the MGA is paying the agency internally set that roughly at market rates. And so the -- I'm not sure if that was your question, but please let me know if that's not.

Yaron Joseph Kinar

Jefferies LLC, Research Division

Â So my question is the revenues that come in from First Connect are a far lower portion of TGP because you collect a fraction of the commissions, right? You collect a percentage fee on that commission versus the agency fee, which is a gross fee. So my question is if HHIP is now expected to accelerate growth and some of that is going back into services through commissions, then ultimately, should we expect the delta within the Services segment's revenue growth and TGP growth to come down a bit relative to where it was in the second quarter.Â

Richard Lyn McCathron

President, CEO & Director

Yaron, I'll go ahead and jump in on this one, Yaron. So I think your answer is correct. If you think about the TGP share and the revenue share, it's largest in HHIP in terms of revenue because we're the carrier. It's second largest in services -- sorry, in the agency because we collect the full commission and its smallest in First Connect because we share a portion of the commission. So as we continue to grow HHIP, the delta between HHIP and services will decrease because we're writing more in something that we receive more revenue from. So I think your observation is correct.

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Yes. That said, I'll also add, though, that the actual cost structure of revenue in First Connect is lower, meaning it's a higher-margin revenue stream. So even if the commission of the revenue as a percentage of TGP declines because of a mix shift. The First Connect platform has lower marginal costs as a percentage of revenue. So all of the mix shift within that segment is accretive to our overall profitability.

Richard Lyn McCathron

President, CEO & Director

Great point. Does that help, Yaron?

Operator

We currently have no further questions. [Operator Instructions].

Richard Lyn McCathron

President, CEO & Director

Â Well, if there are no further questions, we very much appreciate your attention this morning, and we're looking forward to speaking with you next quarter. Have a great rest of the day.

Operator

This concludes today's call. Thank you for joining. You may now disconnect your lines.

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