CCC Intelligent Solutions Inc. (Nasdaq: CCCS)

3Q24 Earnings Call Transcript

October 28, 2024

BILL WARMINGTON, VP OF INVESTOR RELATIONS: Thank you, operator. Good afternoon and thank you all for joining us today to review CCC's third quarter 2024 financial results which we announced in the press release issued following the close of the market today. Joining me on the call are Githesh Ramamurthy, CCC's Chairman and CEO, and Brian Herb, CCC's CFO. The forward-looking statements we make today about the company's results and plans are subject to risks and uncertainties that may cause the actual results and the implementation of the company's plans to vary materially. These risks are discussed in the earnings releases available on our Investor Relations website and under the heading "Risk Factors" in our 2023 Annual Report on Form 10-K filed with the SEC.

Further, these comments and the Q&A that follows, are copyrighted today by CCC Intelligent Solutions Holdings Incorporated. Any recording, retransmission or reproduction or other use of the same, for profit or otherwise, without prior consent of CCC is prohibited and a violation of United States copyright and other laws. Additionally, while we will provide a transcript of portions of this call and we've approved the publishing of a transcript of this call by a third-party, we take no responsibility for inaccuracies that may appear in the transcripts.

Please note that the discussion on today's call includes certain non-GAAP financial measures as defined by the SEC. The company believes these non-GAAP financial measures provide useful information to management and investors regarding certain financial and business trends relating to the company's financial condition and the results of operations. A reconciliation of GAAP to non-GAAP measures is available in our earnings release that is available on our Investor Relations website. Thank you.

And now, I'll turn the call over to Githesh.

GITHESH RAMAMURTHY, CHAIRMAN & CEO: Thank you, Bill. And thanks to all of you for joining us today. I'm pleased to report that CCC delivered another quarter of strong financial performance. In the third quarter of 2024, CCC's total revenue was $238 million, up 8% year-over-year and slightly above our guidance range. As a reminder, in Q3 of last year growth benefitted by one percent from incremental one-time revenue on a subscription contract. Adjusted EBITDA for the quarter was $102 million, up 9% year-over-year and ahead of our guidance range. Our adjusted EBITDA margin was 43%, up approximately 60 basis points year-over-year.

Our solid performance in Q3 and year-to-date demonstrates our durable revenue growth and margin expansion – driven by multiple new business wins, renewals, and contract expansions across our customer groups. While we are pleased with our consistently strong financial performance, we are even more excited about the value creation customers are realizing from our next generation of solutions. This is the foundation for the next leg of growth for CCC.

On today's call I would like to cover three themes. The first is how paradigm shifts – step-change improvements in technology capabilities – propel transformation across the P&C insurance economy, the second is why CCC is uniquely well-positioned to power the next transition, and the third is the adoption of CCC's new generation of high-impact solutions.

When looking back over the company's history, a key tenet of our durable growth model has been our ability to identify, invest ahead of, and capitalize on technology paradigm shifts across the P&C insurance economy.

20 years ago, our investments in internet- and cloud-based architectures preceded – and helped enable – the industry's transition to platforms and dramatically more dynamic and connected operations. The subsequent rollout of CCC ONE for collision repairers also helped to power the emerging class of multi-store operators, who have benefited over many years from the scale of our highly integrated, best-in-class platform. Over the past decade our investments in advanced solutions on top of these architectures enabled customers to realize further game-changing improvements in efficiency and customer service. For example, our investments in mobile ahead of COVID-19 made it possible for the industry to keep processing claims and repairs when remote work became essential, and today over a hundred insurers and thousands of collision repairers use these tools in their daily operations. And critically, we have consistently helped our customers navigate these transitions through already established CCC integrations and workflows, without having to replace their existing systems.

I believe we are at the beginning of an even more transformational shift that we call "intelligent experience" – or "IX" for short – that combines artificial intelligence, an event-based platform architecture, and the connectivity of our multi-sided network to help our customers achieve a step-change improvement in operating performance and consumer experience.

We believe macro industry forces make adoption of an IX-based approach by the P&C insurance economy essential for two primary reasons. The first is the pervasive and accelerating amount of complexity facing the industry, whether that is vehicle complexity, data proliferation, changing consumer expectations, or other forces. These dynamics are impacting all participants in the P&C insurance economy and challenge even the most experienced professionals. The second is industry-wide labor shortages that are being made even more acute by the ongoing retirement of the industry's most tenured people. As a result, every month the burden on an already strained industry, and newer workers, grows. We believe this trend is unsustainable and can only be solved by embracing new, IX-driven approaches to technology that deliver a transformational impact.

As in previous waves, we have been investing ahead of the curve in key technologies that are essential to the IX era – over $150 million in R&D annually and well-over $1 billion in the past decade.

The first of these technologies is AI, where over the past decade we have built deep expertise in building and deploying AI solutions for high-value, mission-critical use cases. These solutions leverage hyperscale, hyperlocal data and can be seamlessly integrated into our customers' existing workflows. They have also been tested at scale by some of the world's most sophisticated customers when it comes to performance. AI is now an eight-figure business for CCC, and while these solutions have already been used across tens of millions of claims with aggregate value in the billions of dollars, we believe that we are still just scratching the surface of what is possible from deploying AI across all aspects of the P&C insurance economy.

The second key technology we have been investing in is our new event-driven architecture powering the CCC IX Cloud. Think of this architecture as the distribution system for AI-enabled workflows. The architecture can handle massive amounts of data from multiple sources in real time. It uses a publish-and-subscribe model which enables everyone in our 35,000-plus company network to set up notifications for relevant business events and also to configure actions based on those events using AI. Important business event notifications might include, depending on the customer and their place within the P&C insurance economy: "estimate complete," "parts ordered," "vehicle ready for pickup." Today these notifications may take place ad hoc through bilateral connections or even by phone or email; with the CCC IX Cloud they can take place instantly and simultaneously across our connected ecosystem.

The CCC IX Cloud is a powerful accelerant for clients to achieve a step-change improvement in speed, efficiency, and performance. Implementation of the event-based architecture is streamlined because it is an internal layer that overlays onto existing CCC cloud applications, customer workflows, and integrations with customer and partner systems. IX Cloud enables customers to deploy CCC solutions faster and easier and increases the number of ways customers can use multiple CCC solutions together. This further extends the value of the CCC network to our customers, whether that customer is an insurer, collision repairer, auto manufacturer, parts supplier, dealer, medical provider, among others.

We have been supplementing these technology investments with additional activities that increase our ability to support customers on their transformation journey. These include the completion of our transition to the public cloud as well as changes we have made to streamline our customer-facing organizations so we can be an even stronger partner to our customers as they deploy our high-impact solutions and transform their operations.

I would like to turn next to the progress of our newer products.

We remain very excited about the growth opportunity from our emerging solutions, and this portfolio of products continues to be the fastest growing part of CCC, with additional customer contract wins and momentum each quarter. While the pipeline for these solutions continues to build – backed by strong, demonstrated ROI and feedback from customers – the velocity of revenue conversion from these new solutions remains slower than anticipated – consistent with what we described last quarter – as clients continue to navigate their internal change management processes to fully realize the benefits of these transformative solutions.

The main reason customers are enthusiastic about our innovation portfolio is the bottom-line ROI these solutions deliver, and I thought I would share some select examples of how we are doing that by bringing intelligent experiences to life for customers.

I'll start with First Look, our AI tool for claim handlers. As a reminder, First Look applies a variety of AI models to photos that insurers receive from consumers, repairers, and a variety of other sources. One top-10 insurer piloting First Look has been using it to improve claims triage, for example, by more quickly identifying likely total losses sitting at repair facilities. Early results for this insurer have shown an average cycle time improvement of 3 days to redirect such claims, reducing rental and storage fees, freeing up space at the repair facility for repairable vehicles, and overall providing a faster and more satisfying resolution for the consumer.

We are also seeing strong early results from Intelligent Reinspection, which uses AI to help insurers streamline the review of incoming repair facility estimates. Insurers receive millions of such estimates each year and Intelligent Reinspection helps reinspectors review increasingly complex estimates quickly, shortening the time to approval. We have multiple top-20 insurers piloting the product and the results show a substantial increase in operating efficiency.

Rounding out insurance, our AI-powered Subrogation solution continues to build on the momentum from previous quarters, with double-digit percent increases from Q2 to Q3 in the number of files reviewed and in customer value delivered from the tool. Our pipeline in Subrogation is strong, and feedback from contracted customers has been very positive.

For repair facility clients, we are seeing increased adoption of our intelligent estimating solution for shops, Mobile Jumpstart. About 45% of repair estimates are written by technicians at repair facilities. Jumpstart uses AI to dramatically reduce the time it takes technicians to generate an initial estimate – from half an hour to about 90 seconds. We now have thousands of repair facilities generating hundreds of thousands of estimates using Jumpstart. This is helping labor-challenged collision repairers get vehicles repaired and back on the road faster, providing a win to repair facilities, consumers, and insurers – and also helping to positively impact the approximately two billion days that elapse every year between auto claims being opened and closed.

On our last earnings call I mentioned the recent launch of CCC® Build Sheets, the CCC ONE add-on that provides collision repairers with data that automatically identifies vehicle-specific packages, paint codes, and parts based on how that vehicle was manufactured. This solution helps repairers more precisely identify the vehicle and also reduces manual effort, resulting in fewer parts ordering errors and shorter cycle times. Since the product was introduced in July, we have signed up over 2,000 repair facilities, the fastest adoption rate of any repair facility product in CCC's history.

We also recently launched another exciting product extension: CCC® Payroll. This solution further expands the breadth of CCC ONE as the operating system for repair facilities by extending our traditional strengths in the front office and repair operations to the back office. CCC ONE already calculates billions of dollars of gross pay for hundreds of thousands of collision repair employees each year, and with CCC Payroll we have established a complete, end-to-end payroll solution for the collision repair industry. This differentiated solution addresses piece rates, commissions, incentives, and other factors inherent to the collision repair industry and is fully integrated into CCC ONE. The product is now live, with 100% of our early pilot customers converting to paying customers, and we also see potential for a variety of other new category extensions beyond payroll moving forward.

We believe the next paradigm shift of technology transformation for the P&C insurance economy has begun and that CCC is well-positioned to help our clients navigate this journey. By combining our multi-sided network with our AI capabilities and IX Cloud platform, we believe we can continue to deliver high-ROI solutions for our customers that solve their most pressing problems – and we are investing accordingly to capitalize on this generational opportunity.

While the velocity of our new products' contribution to revenue is taking longer than we initially expected, we believe this is a timing issue driven by the pacing of each client's digital transformation journey and we remain confident in our ability to deliver our strategic and financial objectives over the near- and long-term.

I will now turn the call over to Brian, who will walk you through our results in more detail.

BRIAN HERB, CHIEF FINANCIAL OFFICER: Thanks, Githesh. As Githesh highlighted, we continue to see strong client engagement across our broadening solution set and we are pleased with our solid revenue growth, margin expansion and the free cash flow generation of the business – which reflect a balance between investment in our growth initiatives and ongoing margin discipline. Now, as we turn to the numbers, I'd like to review our third quarter 2024 results and then provide guidance for the fourth quarter and full year 2024.

Total revenue in the third quarter was $238.5 million, up 8% from the prior-year period. In the third quarter of last year we had a one percentage point benefit from one-time revenue on a subscription contract. Adjusting for this benefit, year-over-year revenue growth in the third quarter of 2024 would be 9%. Approximately 5 percentage points of our growth in Q3 was driven by cross-sell, upsell, and adoption of our solutions across our client base, including repair shop upgrades, and the continued adoption of our emerging solutions, and the ongoing strength in Casualty and Parts. That said, we have seen some softness affecting claim volume across 2024. Approximately 3 points of growth came from our new logos – mostly from our repair facilities and parts suppliers. About 1 point of growth in Q3 came from our Emerging Solutions, mainly Diagnostics, Estimate – STP and new, adjacent Casualty solutions. Run rate from Emerging Solutions overall was about 3% of total revenue in Q3 of 2024 as these solutions continue to be the fastest-growing portion of our portfolio.

Now, turning to our key metrics, software gross dollar retention or "GDR" captures the amount of revenue retained from our client base compared to the prior-year period. In Q3 2024, our GDR was 99%, which is in line with the last quarter. Note that since the first quarter 2020, our GDR has been between 98% and 99% and has either rounded up or down driven primarily by repair shop industry churn. We believe our GDR reflects the value we provide and the significant benefits that accrue to our customers from participating in the broader CCC network. Our strong GDR is a core tenet of our predictable and resilient revenue model.

Software net dollar retention or "NDR" captures the amount of cross-sell and upsell from our existing customers compared to the prior-year period, as well as volume movements in our Auto Physical Damage client base. In Q3 2024 our NDR was 106%, down modestly from 107% in Q2 2024.

Now, I'll review the income statement in more detail. As a reminder, unless otherwise noted, all metrics are non-GAAP. We provide a reconciliation of GAAP to non-GAAP metrics in our press release.

Adjusted gross profit in the quarter was $186 million. Adjusted gross profit margin was 78%, which was flat sequentially and year-over-year. Overall, we feel good about the operating leverage and scalability of our business model and our ability to deliver against our long-term adjusted gross profit margin of 80%.

In terms of expenses, adjusted operating expense in Q3 2024 was $95 million, which is up 6% year-over-year. This was mainly driven by higher IT-related expenses and the timing of professional service costs. Adjusted EBITDA for the quarter was $102 million, up 9% year-over-year with an adjusted EBITDA margin of 43%. Q3 adjusted EBITDA had some phasing benefit as some expenses shifted from Q3 into Q4

Now, turning to the balance sheet and cash flows. We ended the quarter with $286 million in cash and cash equivalents, and $778 million of debt. At the end of the quarter, our net leverage was 1.3 times adjusted EBITDA.

Free cash flow in Q3 was $49 million compared to $46 million in the prior-year period. Free cash flow on a trailing 12-month basis was $200 million, which is up 4% year-over-year. Our trailing 12-month free cash flow margin as of Q3 2024 was 22%, down modestly from 23% as of Q3 a year ago. We did have some modest impact due to the timing of receivables for a few of our larger clients. The significant balances have already been collected in October.

Unlevered free cash flow in Q3 was $61 million, or approximately 60% of our adjusted EBITDA. While our level of free cash flow can vary quarter-to-quarter, we expect it to continue to average out in the low-to-mid-60% range of our adjusted EBITDA on an annual basis.

I'll now discuss guidance, beginning with Q4 2024. We expect revenue of $242.5 million to $246.5 million, which represents 7% growth year-over-year at the midpoint. We expect adjusted EBITDA of $103 to $105, a 43% adjusted EBITDA margin at the midpoint.

For the full year 2024, we expect total revenue of $941 to $945 million – which is 9% year-over-year growth and is unchanged vs. our previous range. For adjusted EBITDA, we are raising the full-year 2024 range to $394 to $396 million, a $2 million increase at the midpoint. The midpoint of our new guidance ranges represents about 110 basis points of year-over-year expansion in adjusted EBITDA margin to 42% for 2024.

So, three things to keep in mind as you think about our Q4 and full year guide for 2024.

The first point is that, as we mentioned on our call in February this year, Q4 2023 revenue growth had about one point of benefit from one-time items and year-end true-ups above our contractual commitments on subscription contracts, which gives us a more difficult year-over-year comp for us in Q4 of this year.

The second point is, as I referred to earlier, we have seen some softness in claim volumes during the year. About 20% of our revenue has transactional volume components. Year-to-date through September, we estimate claim volumes are down approximately 6% year-over-year, implying about a 1-point headwind of revenue growth – though that can vary depending on solution and client mix.

The third consideration is that the midpoint of our updated guidance implies an adjusted EBITDA margin of about 43% in Q4 and about 42% for full year 2024. Consistent with our past performance, we expect Q4 to represent the peak margin for the year. As such, we expect the starting point for next year's margin expansion will be on the full year 2024 margin of 42%. Also, as a reminder, in Q4 of 2023 we benefitted from a $3 million onetime insurance claim reimbursement, which we expect to create a 1 percentage point margin impact as we lap this in Q4 of this year.

So, as we wrap up, I would highlight our continued confidence in our ability to deliver our long-term target of 7-10% organic revenue growth and mid-40%s adjusted EBITDA margin as we continue to execute on our strategic priorities and generate significant value for both our customers and our shareholders.

With that, operator, we're now ready to take questions. Thank you.

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