CCC Intelligent Solutions Inc. (Nasdaq: CCCS)

2Q24 Earnings Call Transcript

July 30, 2024, 5:00 PM EDT

BILL WARMINGTON, VP OF INVESTOR RELATIONS: Thank you, operator. Good afternoon and thank you all for joining us today to review CCC's second 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 top- and bottom-line results. In the second quarter of 2024, CCC's total revenue was $233 million, up 10% year-over-year and ahead of our guidance range. Adjusted EBITDA was $96 million, up 18% over last year and also ahead of our guidance range. Our adjusted EBITDA margin was 41%.

On today's call I would like to highlight three themes that underpin how we are helping our customers usher in a generational change in operating performance. The first is CCC's durable business model, the second is our innovation engine which at its core has created over 300 unique AI models, and the third is a view into the pace of adoption as customers transition to this next generation of CCC's solutions.

My first topic is CCC's durable business model. Our solid financial performance in Q2 was the result of continued new business wins, renewals, and contract expansions. We also completed the successful, on schedule roll-out of our full suite of auto physical damage or "APD" solutions for a top-20 insurer as they transitioned from multiple vendors to the CCC platform. In our insurance business, the first half of this year has seen us renew multiple clients, add a number of new logos, and cross-sell a variety of incremental products across our customer base. We have also added over 600 new repair facilities so far in 2024. This growth pushed us across a major milestone: we now have over 30,000 repair facilities on the CCC platform.

Our diverse customer base, broad range of mission-critical solutions, and growing multi-sided network have helped create a business model that has both revenue predictability and margin expansion. This balanced profile has served us well as we continue to invest in AI-enabled innovation. Because of the deep, decade-plus experience we have in building AI solutions, we have an infrastructure and development model that provides tremendous scale and efficiency as customer volumes ramp. To date, our customers have processed tens of millions of unique claims using a CCC AI-enabled solution, and the economic profile of these AI solutions is similar to the rest of our SaaS portfolio. We believe the scale and efficiency of our AI deployment model will be a significant competitive and economic advantage in the future.

At the foundation of our durable business model is the deep trust our customers place in us to help them solve their most pressing business problems. We believe that delivering top-tier day-to-day performance, coupled with a vision and tangible pathway to innovation, is the best way to build lasting relationships with customers. These principles have served us well for decades, and are key enablers of our 99% GDR and industry-leading NPS of 83.

A hallmark of our customer-focused culture is our ability to understand our customer's pain points and to design, develop, and implement new solutions that address tangible problems they are facing across their businesses. While the amount of time it takes for different solutions to gain critical mass can vary, we have consistently found that demonstrable value delivery is the key to achieving successful launches with long runways for growth. And while this can sometimes make quarter-to-quarter predictions on the adoption of new solutions challenging, our conviction around tangible product ROI is what gives us the confidence to invest in game-changing solutions over the long-term. And that is precisely what we are seeing across our portfolio of innovation.

This leads me to my second topic: innovation.

As we approach the $1 billion mark in annual revenue, it is important to note that almost all of this growth has come from innovation. Innovation that substantially improved operating performance for our customer segments. As we look forward, we believe that our investments over the last three years have created an exciting pipeline of new solutions with greater breadth and depth than at any time in our history. And critically, this portfolio of innovation is not meant to deliver modest, incremental improvements to customers – we believe our solutions are transformational for them. And over many years we have found that laying the foundation for transformational change yields decades-long runways for growth.

A good example of this is the evolution of our automotive repair platform, CCC ONE, which today contributes over $400 million in annual revenue. Leveraging the power of cloud computing, we used the launch of CCC ONE to reinvent estimating and shop management, and over time we have added a series of industry-leading innovations to a platform that serves everyone from single-store independents to the largest multi-store operators. Our state-of-the-art CCC ONE platform has pushed thousands of software releases over the past decade and is now the trusted operating system for more than 30,000 collision repair facilities across the United States. The CCC ONE platform is the gateway to estimating, parts ordering, repair management, diagnostics, customer communications, and much more.

Today we see our decade-plus investments in AI enabling an even larger growth opportunity across the broader P&C insurance economy. While each of our customers is different, they share a common challenge in managing the rapidly increasing complexity that has become the norm in this industry. And CCC is leading the way in investing to address this challenge.

Over the past decade we have invested over $1 billion in R&D – including about $150m in 2023 and 17% of year-to-date 2024 revenue– to develop new, high-ROI solutions for our customers. And we work closely with our clients to help them rapidly integrate our new innovations and also navigate the change management that is sometimes needed to fully realize the benefit of these powerful innovations. For example, in November 2021 we deployed Estimate-STP – the world's first production AI that can pre-populate on qualified repairable vehicles a full, line-level estimate from a photo in seconds – and today we have over 30 insurers using this solution. While volume from revenue-generating clients in production is still just 3% of annual claims, through our deep engagement model we have helped one top-ten carrier be on track to process nearly 20% of their repairable claims on a run rate basis through this technology.

AI is now embedded in a wide variety of solutions across the entire CCC portfolio – from AI-enabled insurance solutions like First Look, Intelligent Reinspection, Impact Dynamics, and Subrogation, to repair-focused solutions like Repair Cost Predictor and Mobile Jumpstart.

The recently-introduced CCC Intelligent Experience Cloud, or "IX Cloud" for short, is designed to accelerate our customers' digital transformation journey in a way that is purpose-built to solve for the inherent complexity of the P&C insurance economy. The IX Cloud overlays a new event-driven architecture onto CCC's existing cloud applications, customer workflows and customer and partner systems. This microservices-based approach is designed to make it faster and easier for customers to deploy new CCC solutions and will also increase the number of ways customers can use multiple CCC solutions together. Tens of billions of dollars are wasted annually across the P&C insurance economy due to administrative inefficiency, unnecessary delays, and other forms of leakage. The IX Cloud provides a step-level change to addressing this inefficiency.

Another important point of validation for our product portfolio was our recent annual customer conference in Atlanta this past May. We heard firsthand from more than 300 customers representing insurers, repair facilities, parts suppliers, OEMs, and other members of CCC's multisided network. We also had representatives from across the 200+ partners in the CCC ecosystem sharing how the IX Cloud platform can help customers extend into new areas. The positive feedback we received from our product demos reinforced our confidence in the investments we are making and I thought I would discuss two of the exciting innovations we showed.

The first of these is CCC® Intelligent Reinspection, which continues the AI theme I noted earlier. Insurers receive millions of shop-written estimates each year and while we have several tools in place to make their review of those estimates more efficient, the added complexity of vehicles requires step-change solutions to make this process as seamless as possible. With Intelligent Reinspection, AI helps insurers prioritize their review by flagging the specific, individual line items that fall outside their normal rules so they can quickly engage with the shop and resolve the claim.

The second is CCC® Build Sheets. Vehicle complexity has gotten to the point where the number of possible replacement part options is negatively impacting ordering accuracy. Take a driver's side mirror as an example. 10 years ago all you had to worry about was paint color. Today the matrix of choices includes heated vs. unheated, paint color vs. chrome, auto-folding, blind-spot detection, 360o-view camera – this creates dozens of possible combinations. Build Sheets denote the exact factory-installed options on an individual vehicle as manufactured and having access to them during estimate creation means an estimator can accurately filter to the correct replacement part from potentially dozens of available versions of that part for the exact model and make of vehicle being repaired. We recently launched CCC® Build Sheets as an add-on for CCC ONE customers so they can have this data online while they are writing the estimate. That means fewer part returns, fewer supplements, and reduced cycle time, because the repair facility is writing a more accurate estimate the first time.

Both of these solutions have been getting strong early interest from customers.

My third and final topic is the adoption of CCC's Solutions.

We continue to see strong demand for our solutions across our customer base, including high levels of customer engagement and pilots for new solutions – but we are also seeing the duration of pilot conversion for our emerging solutions take longer than anticipated to convert into in-year revenue. Last year Emerging Solutions contributed about 1 point to revenue growth, and in our Q4 earnings call we discussed our expectation that Emerging Solutions would contribute 2 points of growth in 2024. We now expect Emerging Solutions to continue to contribute about 1 point of growth in 2024, with the growth contributions of these solutions playing out more materially in 2025.

Our confidence in the long-term opportunity from these solutions is based on the strong engagement we are having with customers and the value delivery that we see from early results. Each of our Emerging Solutions is being evaluated by multiple top-10 insurers, and nearly all of our top-20 insurance accounts are piloting and / or evaluating one or more of these products.

Live, contracted customers are also experiencing significant positive impacts to performance. Within subrogation, for example, we now have double-digit contracted customers using one or more solutions, with tens of millions of dollars of impact already realized from using our recently introduced inbound subrogation solution alone, with many more customers in active pilots. We are also seeing continued progress in adoption for Estimate-STP and Diagnostics Workflow, though in aggregate the rate at which these new solutions contribute to in-year revenue has been slower than anticipated as customers have pursued larger than expected change management activities aimed at fully maximizing the value of our newer, more transformative solutions at scale.

In my 30+ years at CCC, the most exciting growth opportunities have always come on the cusp of a transformational industry change. I believe we're in a similar place today – except that the number of solutions and the transformational nature of these solutions is the greatest I have ever seen. We are investing accordingly to capitalize on this generational opportunity and are confident in our position as our customers' trusted partner of choice to help them navigate this journey. We believe doing so will deliver substantial benefits to our customers and also allow us to deliver against 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 are seeing strong innovation and client engagement across our solution set. We are pleased with our top- and bottom-line performance, which reflects 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 second quarter 2024 results and then provide guidance for the third quarter and full year 2024.

Total revenue in the second quarter was $232.6 million, up 10% from the prior-year period. Approximately 7 points of our growth in Q2 was driven by cross-sell, upsell, and adoption of our solutions across our client base, including repair shop upgrades, continued adoption of our digital solutions, and the ongoing strength in Casualty and Parts. Approximately 3 points of growth came from our new logos – mostly our repair facilities and parts suppliers. About 1 point of growth in Q2 came from our Emerging Solutions, mainly Diagnostics, Estimate – STP and the new, adjacent Casualty solutions.

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 Q2 2024, our GDR was 99%, which is in line with 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 strong 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 Q2 2024 our NDR was 107%, in line with Q1 2024 and consistent with our average across 2023.

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 $182 million. Adjusted gross profit margin was 78%, which is flat sequentially and up against 77% in Q2 of 2023. The stronger year-over-year adjusted gross profit margin primarily reflects operating leverage on the incremental revenue. 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 target of 80%.

In terms of expenses, adjusted operating expense in Q2 2024 was $96 million, which is up 7% year-over-year. This was mainly driven by higher IT-related costs as well as investment in our customer-facing functions. Adjusted EBITDA for the quarter was $96 million, up 18% year-over-year with an adjusted EBITDA margin of 41%.

Now, turning to the balance sheet and cash flows. We ended the quarter with $238 million in cash and cash equivalents, $780 million of debt. At the end of the quarter, our net leverage was 1.4 times adjusted EBITDA.

Free cash flow in Q2 was $36 million compared to $55 million in the prior-year period. Free cash flow on a trailing 12-month basis was $197 million, which is up 11% year-over-year. Our trailing 12-month free cash flow margin as of Q2 2024 was 22%, that is up from 20% as of Q2 a year ago.

Unlevered free cash flow in Q2 was $48 million, or approximately 50% 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 mid-60% range of our adjusted EBITDA on an annual basis.

In May we issued 3.8 million shares to redeem 17.8 million in private sponsor warrants. The transaction helps simplify our capital structure going forward. In addition, our private equity owners completed 2 secondary offerings since our last earnings call: 50 million shares in May and 30 million shares in July. Our free float as measured by Bloomberg is currently over 70% of shares outstanding, up from about 30% in October – a significant improvement in stock liquidity over the last 9 months.

I'll now cover guidance, beginning with Q3 2024. We expect total revenue of $236 million to $238 million, which represents 7 to 8% growth year-over-year. We expect adjusted EBITDA of $97 to $99 million, a 41% adjusted EBITDA margin at the midpoint.

For the full year 2024, we expect total revenue of $941 to $945 million vs. our previous range of $944 to $950 million, and adjusted EBITDA of $391 to $395 million vs. our previous range of $389 to $395 million. The midpoint of our new guidance ranges represent a half-percent reduction in year-over-year revenue growth to 9% and a half-percent increase in adjusted EBITDA margin to 42%.

So, 3 things to keep in mind as you think about our third quarter and full year guide for 2024.

The first point is that, as Githesh referenced in his remarks, we had expected Emerging Solutions to increase their contribution to revenue growth in the second half and make up about 2 percentage points of full year 2024 revenue growth vs. 1 point contribution in 2023. While client engagement around our Emerging Solutions continues to be very strong, it is taking longer to convert pilots to revenue than we had originally forecasted. As a result, we are now expecting the contribution from Emerging Solutions will remain at about 1% for 2024. That said, our medium-to-long term view of the growth contribution from these solutions has not changed.

The second point is that, as we discussed on our earnings calls last year, we had a one percentage point benefit in Q3 and a one percentage point benefit in Q4 of last year from non-recurring items: one point came from catch-up revenue on a subscription contract in Q3 and one point came from one-time items and year-end true-ups in Q4 of last year. Note that our year-over-year revenue growth can be impacted by contract timing and solutions with volume components.

The third point is that in Q2 of this year our adjusted EBITDA margin of 41.2% was up about 300bps year-over-year. The increase was stronger than initially expected largely because of phasing of cost benefit in the first half of the year. Margin in the second half of 2024 will be impacted by the pace of hiring and phasing of cost in the second half of this year. For the full year of 2024, we expect margin expansion of about 100 bps year-over-year to about 42% and margins for the second half to expand sequentially over margins in the first half.

Overall, the strong trends we're seeing in renewals, relationship expansion, and engagement around new solutions reinforces our confidence in the underlying strength of the business. The combination of our durable business model, advanced AI capabilities, interconnected network, and broad solution set puts us in a unique position to help our customers in the P&C insurance economy reduce their cycle times and administration cost while improving their consumers' experiences throughout the claims process.

We are confident in our ability to deliver against 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 are now ready to take questions. Thank you.

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