CCC Intelligent Solutions Inc. (Nasdaq: CCCS)

4Q23 Earnings Call Transcript

February 28, 2024, 5:00 PM EST

BILL WARMINGTON, VP OF INVESTOR RELATIONS: Thank you, operator. Good afternoon and thank you all for joining us today to review CCC's fourth quarter 2023 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 today 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 AND 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 performance to complete another record year in 2023. For the fourth quarter of 2023, CCC's total revenue was $229 million, up 12% year-over-year, and ahead of our guidance range. Adjusted EBITDA for the fourth quarter was $100 million, up 25% year-over-year, and adjusted EBITDA margin was 44%, both also ahead of our guidance range.

Revenue for the full year 2023 was $866 million, up 11% year-over-year and well-above the high-end of our initial 2023 guidance range. Adjusted EBITDA for the full year 2023 was $353 million and adjusted EBITDA margin was 41%, also well-above the high-end of our initial guidance range.

We believe our strong performance is the result of growing interest in advanced digital solutions across the P&C insurance economy, and the trust our customers place in us to deliver those innovations.

Over the past 4 years – 2½ as a publicly-traded company – we have grown our revenue by over 50%, almost entirely organically, from $570 million in 2019 to $866 million in 2023 – with a Q4 run-rate of over $900 million. Over that same time, we have grown our adjusted EBITDA by more than 100%, from $170 million in 2019 (a 30% margin) to $353 million (a 41% margin) in 2023. Q4 was the first time we delivered $100 million in adjusted EBITDA in a quarter.

Today I want to focus on what we have done to position CCC for continued growth as we head into 2024. The first is delivering innovation to meet our clients' accelerating demand for AI-enabled solutions. The second is continuing to grow our multi-sided network. And third is investing in CCC's growth capacity and capabilities while continuing to expand margins.

My first topic is the innovation we are delivering to meet our clients' accelerating demand for AI solutions.

I have noticed a significant change in my conversations with clients over the past few months. While claims and repair cost inflation continues to be a concern, clients are increasingly turning their attention to the accelerating retirement of their work forces. What we are hearing from customers is that they expect between one-third and one-half of their most experienced workers to retire before the end of the decade. What this means for our clients across the P&C insurance economy is that they are facing the loss of decades of institutional knowledge which will most likely result in a smaller, less-experienced, and higher-turnover workforce. Making the situation even more worrisome is that this labor shortage is taking place simultaneously with rapidly rising vehicle repair complexity. As a result, our customers need help closing the skill gap with new and existing workers – quickly.

These and other challenges are driving accelerating interest and adoption of AI-driven solutions across our client base. In 2023, CCC processed the highest number of auto claims in the company's 43-year history. On a cumulative basis, over 19 million unique claims since 2018 have now been processed using a CCC AI enabled-solution. And we have doubled the number of insurers using our AI-based Estimate-STP solution over the past year.

AI took a large step forward across our portfolio in 2023, and we are well-positioned for additional advancement in 2024. For insurers, 2023 saw growth in our AI-based computer vision technology not just in greater Estimate-STP usage, but in expanded input channels and use cases. First, we extended our mobile AI from consumer self-service to the field-adjuster channel, and in Q4 we broadened that even further with the introduction of First Look, a solution designed to enable insurers to ingest and analyze photos from additional sources – including tow trucks, salvage providers, and more – so they can leverage AI more flexibly and comprehensively across the claims handling and appraisal process. We also introduced Impact Dynamics, which leverages AI computer vision capabilities to predict impact severity from vehicle damage photos, enabling earlier and more accurate triage of potential casualty claims based on insurer rules, among other applications.

Significant investment in our AI-enabled subrogation solution has also generated strong momentum as we start 2024. Subrogation is the process of one insurer requesting payment from another insurer based on liability for a claim. Tens of billions of dollars in claims are subrogated each year in a highly-manual, paper-based process costing insurers over $2 billion per year in loss adjustment expense. Customers using our solution have seen significant improvements in subrogation recoveries and in the efficiency of their subrogation activities, and we added multiple new subrogation customers in Q4.

For repairers, 2023 saw the introduction of two new AI-based photo solutions. The first was Repair Cost Predictor, which enables collision repairers to quickly provide a predicted repair cost range to consumers. The second was Mobile Jumpstart which we launched late in Q4. Mobile Jumpstart uses AI to dramatically reduce the time it takes an estimator to generate an initial estimate and, since its introduction, more than 3,000 repair facilities have already used the solution – with an average time to complete an initial estimate of less than 2 minutes vs. the traditional industry average of a half an hour or more. These innovations are simply transformational for a capacity-constrained industry like collision repair.

At CCC, our goal is to enable the digitization of the entire auto claims supply chain – from first notice of loss all the way through subrogation – which we are advancing by providing solutions that allow our customers to digitize and automate ever more steps in the claims and repair process – eliminating waste, reducing cycle time, and improving satisfaction for our customers and theirs. We believe that the fusion of our industry-leading AI; deep, multi-sided network; and scalable, multi-tenant platform positions us as the partner of choice for our clients' digital transformation and for more and more of a claim's lifecycle to be processed using CCC solutions over time.

My second topic is the continued growth of our multi-sided network. In 2023, we expanded our network of customers by adding over 1,000 collision repairers and over 500 parts dealers while expanding our relationships with several key automotive OEMs. We are now approaching 30,000 repair facilities and 5,000 parts suppliers on the CCC network. We renewed and expanded multiple insurer relationships, including a top-20 carrier that is scheduled to roll out a full suite of auto physical damage solutions in Q2 of 2024 as well as several new Casualty insurers. We have also expanded our ecosystem with leading technology and service providers who increasingly see the value of connecting to the broader CCC network.

CCC Diagnostics is a good example of the power of the CCC network in action. Since 2017, diagnostic scanning and calibration have rapidly become a common activity in collision repair. Everyone involved in resolving a collision has an interest in a quick, quality repair and the CCC platform is helping the entire ecosystem navigate the advanced technology increasingly going into vehicles by introducing solutions designed to streamline the administration of these diagnostic, scanning and calibration tasks and to increase transparency and trust throughout this process. This multi-sided benefit helped increase the total volume of validated scans moving through CCC Diagnostics by 80% year-over-year in 2023.

The great thing about a multi-sided network, of course, is that its value to each participant grows as more participants join the network. And while we continue to add participants in our existing categories, we also plan to add new business categories to enable additional innovation across the CCC network. Our ability to do this is enhanced by the investments we have made in our IT infrastructure and AI capabilities, and is a key enabler of growth and enhanced value to customers in 2024 and beyond.

My third and final point is that we have invested significantly in CCC's growth capacity and capabilities while continuing to expand margins. During 2023, we invested across multiple dimensions of the business to enable the necessary components to scale our growth into a multi-billion-dollar revenue company. I will highlight 3 of these components:

Over the last 2 years we have increased our product development capacity by over 30%, and have also significantly expanded our product design, product management, AI, and data science teams. This has resulted in an accelerated pipeline of new product introductions. In dollar terms, R&D spend increased to approximately $150 million in 2023 excluding stock-based compensation.

In 2023, we completed the transition of tens of thousands of servers from our private cloud datacenters to public clouds. This infrastructure provides the rapid scalability and redundancy needed to support our increasing new product velocity and position CCC for continued growth. One critical benefit we have seen already is the elastic compute capacity for AI inference and deployment. We no longer need to be in the business of buying and installing GPUs after doing that for a decade.

The third component is that during 2023 we also continued to add and train new leaders and associates in our market-facing functions. This has resulted in us working even more closely with our customers to understand their evolving needs and test new solutions. We believe that our position as our customers' partner of choice for innovation is reflected in our 99% GDR for the year, as well as our industry-leading Net Promoter Score, which improved from 82 to 83 in 2023.

We believe these investments help position CCC for our next leg of growth. And importantly we were able to make these critical investments while delivering significant year-over-year margin expansion in 2023.

We continue to execute on our strategic plan and mature as a public company. 2½ years after going public, we have made significant progress in broadening our shareholder base and increasing the liquidity of our shares. Following the secondary offerings in November and January, our free float has increased by almost 60 million shares to about 50% of shares outstanding – a significant improvement in liquidity in just 4 months. In addition, we were able to improve our balance sheet efficiency through the targeted repurchase of 5% of shares outstanding using approximately $328 million in cash.

Let me conclude by saying that we are incredibly proud of what our team accomplished in 2023. We're excited about what we have planned for 2024 and remain confident in our ability to continue to deliver on our strategic and financial objectives. I will now turn the call over to Brian, who will walk you through our results.

BRIAN HERB, CHIEF FINANCIAL OFFICER: Thanks, Githesh.

As Githesh highlighted, by investing in CCC's growth capacity and capabilities, delivering innovation to meet our clients' accelerating demand for AI-enabled solutions, and growing the multi-sided network, we are driving positive momentum across the business and reinforcing our confidence in our long-term growth outlook. We are pleased with our top- and bottom-line performance, which reflects a balance between investment in growth initiatives and margin discipline. Now as we turn to the numbers, I'd like to review our fourth quarter and fiscal year 2023 results and then provide guidance for the first quarter and full year of 2024.

Total revenue for the fourth quarter was $228.6 million, up 12% from the prior-year period. Total revenue for fiscal year 2023 was $866.4 million, up 11% from 2022.

Approximately 9 points of our revenue growth in Q4 was driven by cross-sell, upsell, and adoptions of our solutions across our client base, including repair shop package upgrades, continued adoption of our digital solutions, and the ongoing strength in Casualty and Parts. About 1 point of those 9 points came from one-time items and year-end true-up revenue above contractual commitments on subscription contracts. An incremental 3 points of growth came from new logos – mostly with our repair facilities and parts suppliers. I also want to highlight that we saw about 1 point of contribution in Q4 from our emerging solutions, mainly Diagnostics and Estimate – STP.

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 Q4 2023, our GDR was 99%, which was up modestly from 98% last quarter. Please note that since the first quarter 2020, our GDR has been between 98% and 99% and has rounded up or down driven primarily by repair shop industry churn. We believe our strong software 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 Q4 2023 our NDR was 108%, up from 107% the last couple of quarters.

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

Adjusted gross profit in the quarter was $181.5 million. Adjusted gross profit margin was 79%, up from 78% last quarter and 77% in the fourth quarter of 2022. The stronger year-over-year adjusted gross profit margin primarily reflects operating leverage on incremental revenue. Overall, we feel good about the operating leverage and the scalability of the business model and our ability to deliver against our long-term adjusted gross profit margin target of 80%.

In terms of expenses, adjusted operating expense in Q4 2023 was $90.8 million, up 7% year-over-year. This was mainly driven by investments in our customer-facing functions, as well as higher IT-related cost. In the quarter, we also benefitted from a $3 million one-time insurance claim reimbursement. Adjusted EBITDA for the quarter was $100.1 million, up 25% year-over-year with an adjusted EBITDA margin of 44%.

Now, turning to the balance sheet and cash flow. We ended the quarter with $195 million in cash and cash equivalents and $784 million of debt. At the end of the quarter, our net leverage was 1.7 times adjusted EBITDA.

Free cash flow in Q4 was $75.1 million compared to $72.4 million in the prior-year period. Free cash flow for full-year 2023 was $195 million, up 28% year-over-year. Our free cash flow margin in 2023 was 23% compared to 19% in 2022.

Unlevered free cash flow in Q4 was $85 million, or approximately 85% of our adjusted EBITDA. For the full year 2023, unlevered free cash flow was $235 million, 67% of our adjusted EBITDA on a reported basis. While our level of free cash flow can vary quarter-to-quarter, we expect it will continue to average out in the mid-60% range of our adjusted EBITDA.

I'd now like to finish with guidance, beginning with Q1 2024. We expect total revenue of $224.5 to $226 million, which represents 10% growth year-over-year. We expect adjusted EBITDA of $90.5 to $92 million, 41% adjusted EBITDA margin at the midpoint in Q1.

For the full year 2024, we expect revenue of $942 to $950 million, which represents 9-10% year-over-year growth. We expect adjusted EBITDA of $387 to $395 million, which represents 41% adjusted EBITDA margin at the midpoint.

So, 3 points to keep in mind as you think about our first quarter and full year guidance for 2024.

The first is that we saw broad-based strength across insurance in Q4 last year, including revenue from above-contractual commitments. This can vary quarter-to-quarter. As a result, we expect total Q1 2024 revenue growth to be up 10% year-over-year, but this is down sequentially in absolute dollars.

The second point is that the emerging solutions which contributed about 1 point of growth in 2023 and we expect that level of contribution from the upsell and cross-sell of these emerging solutions to be a larger contributor to growth in 2024 as these solutions continue to scale.

The third point is that, as in prior years, we experience some seasonality in our year-over-year adjusted EBITDA margin, with the second half levels being above first half. We expect 2024 to be consistent with this pattern, with the first half margins being constrained by the reset of employee-related expenses and the cost of our industry conference, along with the absence of the $3 million insurance benefit that we recognized in Q4 of last year. We therefore see the starting point of our year-over-year adjusted EBITDA margin expansion against our full year 2023 margin of 41%.

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

The need for digitization across the P&C insurance economy continues to accelerate and CCC is well-positioned to drive durable growth in both revenue and profitability in the near- and long-term. We are confident in our ability to deliver against our long-term target of 7-10% organic revenue growth and adjusted EBITDA margins expanding in the mid-40%s. We have delivered over 1,000 basis points of margin expansion in the last four years while investing in innovation to support our growth ambitions, and we will continue to balance investments and margin expansion going forward. As we continue to execute on our strategic priorities, we believe we will 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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