



CCC Intelligent Solutions Inc. (Nasdaq: CCCS)

Acquisition of EvolutionIQ Call Transcript

December 20, 2024

BILL WARMINGTON, VP OF INVESTOR RELATIONS: Thank you, operator. Good morning and thank you all for joining us today on short notice to discuss CCC's acquisition of EvolutionIQ which we announced in the press release issued this morning. In addition, we have posted to our Investor Relations website a presentation with supplemental information on the proposed transaction. 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 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. Thank you.

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

GITHESH RAMAMURTHY, CHAIRMAN & CEO: Thank you, Bill. Good morning and thank you for joining us. We are incredibly excited to discuss the acquisition of EvolutionIQ, the leading platform for AI-powered guidance in disability and injury claims management. We believe this combination is transformational for both of our companies and brings together two leading AI-powered platforms to revolutionize how claims are resolved across the insurance economy, creating significant value for our customers, shareholders, and employees.



On today's call I will discuss the strategic rationale for acquiring EvolutionIQ – how we believe this transaction accelerates our vision of delivering intelligent experiences across our customers and partners, augments our AI solution portfolio, and significantly increases our addressable market. Brian will then discuss the financial rationale for the transaction and how it enhances our financial profile.

Let me start with Slide 4 of the deck we published this morning on our IR website. As you know, our business today broadly serves two massive sectors – insurance and automotive – and we help manage a highly connected ecosystem of customers and partners in and across both. You have also heard me talk about intelligent experiences, our vision for combining artificial intelligence, an event-based architecture, and the connectivity of our multi-sided network to help our customers achieve a step-change improvement in operating performance and consumer experience at scale. We are doing this today across our portfolio of AI-enabled solutions – bringing intelligent experiences to life for customers in estimating, casualty, and repairs.

EvolutionIQ extends and accelerates this journey in several important ways. First, it deepens and broadens our existing insurance footprint, where we have been the partner of choice for our customers for many years. Second, the EvolutionIQ technology platform represents the next leap in intelligent experiences overall – leveraging AI not just to help automate a particular task, but to actively guide claims professionals on the next best actions to take among hundreds or even thousands of possible tasks based on their unique configurations and rules. EvolutionIQ pioneered the use of next best action claims guidance in disability and workers' compensation and is rapidly expanding these capabilities to other insurance lines of business. What EvolutionIQ is doing, in many ways, is not just the future of insurance, but a preview of the future world of work: people and AI working together to drive better outcomes than humans or AI can produce independently. The results have been transformational – enabling injured and disabled workers to return to the workforce sooner, producing a better quality of life for people and saving billions of dollars in avoidable costs and lost economic productivity.

EvolutionIQ's world-class capabilities in AI-driven next best action guidance, Gen AI intelligent summarization, and other innovations are also a strong complement to CCC's existing strengths in computer vision, natural language processing, and other AI technologies, with broad applicability and extensibility across the entire CCC customer base over time, providing many pathways for durable, long-term growth well into the future.

We believe the combination of EvolutionIQ and CCC is a strong strategic fit for 4 reasons.

First, EvolutionIQ is not just great AI technology – like CCC, it's a great AI business: a high-quality, high-growth SaaS platform delivering real AI-driven results in claims at scale. The company's pioneering innovations in Next Best Action recommendations have enabled it to grow rapidly, to the point that in less than five years, EvolutionIQ has become an industry



standard tool for AI-based claims guidance and is in use by 7 of the top-15 group disability insurers in the United States based on net premium written. They literally created their category. Evolution IQ's solutions drive an average program ROI of 8-10x and an astounding multi-point reduction in loss ratio – all powered by AI.

Second, EvolutionIQ expands our addressable market. Within the \$35 billion plus market for digitizing the global insurance economy, CCC's solutions have historically been targeted at the \$10 billion plus market opportunity represented by the US auto insurance economy. Through this acquisition, we have added exposure to the broader \$15 billion plus market for digitizing US P&C overall, with new, advantaged positions in the attractive strategic adjacencies of Disability, Workers' Comp, and General Liability. There is minimal overlap between our client bases, with only one top-20 insurer currently doing business with both EvolutionIQ and CCC, which opens up significant cross-selling and new logo opportunities for both CCC and EvolutionIQ.

The third reason is that EvolutionIQ is highly complementary to CCC's existing product portfolio and AI technology. CCC already generates about 10% of our revenue from helping insurers manage tens of billions of dollars of injury claims through our auto casualty business. The addition of EvolutionIQ's AI-powered injury claims resolution capabilities will allow us to expand our Auto Casualty suite, positioning us to build on our already strong momentum in Casualty, one of our fastest-growing product lines. In addition, we believe that EvolutionIQ's technology is highly compatible with and complementary to CCC's existing AI capabilities and provides a path to bringing Next Best Action solutions to the rest of our 35,000 customers.

The fourth reason is that our combination with EvolutionIQ reinforces and accelerates CCC's broader strategy of delivering intelligent experiences across our customers and partners. It is easy to imagine providing Next Best Action guidance not just in managing disability and injury claims, but in navigating the complexity in auto physical damage claims, parts ordering, repair operations, and so much more. We are also excited by the potential to create a new multi-sided network in disability and injury claims similar to what CCC has built in our existing business.

Turning to Slide 6: So, who is EvolutionIQ? The company was founded in 2019 with a mission of improving the lives of disabled and injured workers by transforming how claims from those populations are resolved. To do this EvolutionIQ assembled the industry's best technical team 100% devoted to claims guidance. Today the company has about 200 employees, with roughly half of them AI experts with prior experience at Google, Meta, Amazon, Palantir, and other tech leaders.

This team has pioneered two fundamental categories of AI-based intelligent solutions. The first is Claims Guidance solutions, which have been purpose-built for disability and workers' compensation insurance lines. These solutions help claims professionals to take next best



actions to optimize claimant interactions and claim resolution, enabling injured and disabled workers to return to the workforce more quickly. The second is Medical Summarization with their Medhub solution, which decodes medical documents, helps insurers more quickly understand claims, and accelerates decisions with AI-driven insights. This latter solution can be applied not just to disability and workers' comp, but also to auto casualty and general liability lines of business. Medical Summarization has been a topic of great interest for CCC's existing customers and we are pleased to be bringing what we consider the best solution in the world in this area to our portfolio.

To understand why EvolutionIQ's solutions have been so effective, you have to start by understanding the day-to-day challenges facing individual claims adjusters. The first challenge is that an adjuster is typically managing somewhere between 100 and 200 claims at one time, with each claim consisting of dozens – sometimes hundreds – of pages of documents, plus a wide variety of daily ad hoc interactions and follow-ups. Without a good way to prioritize those claims or the tasks within them, most adjusters simply work through the claims sequentially with a goal of looking at each claim at least once per month. The second challenge is the growing cognitive load on adjusters driven by the increasing complexity in the 5 Vs of data – volume, velocity, variety, veracity, and value. The third challenge is staffing – turnover is high, new adjusters struggle to ramp, and managers find it hard to scale.

All of this often results in significant process inefficiencies and unnecessary administrative complexity.

In short, this is a problem too complicated for humans to solve on their own.

Using EvolutionIQ significantly improves these dynamics, with AI helping to uncover insights and guide claims professionals to the next best actions for the claims in their queues based on their configurations and rules, in turn improving short-term disability return to work rate by multiple days, short-term to long-term disability conversion by high double-digit percentages, and long-term disability return-to-work-rate by several weeks. The impact of these results adds up quickly, with a rare multi-point impact on an insurer's combined ratio possible from using EvolutionIQ solutions.

These results generate very high ROI to customers, on average 8-10x, and those strong real-world claim results support a strong economic model for EvolutionIQ. The business has long-term, multi-million-dollar annual contract value relationships with several of the largest insurers in the US, helping them process millions of claims per year, based entirely on the strength of the tangible results delivered by its AI. And, like CCC, EvolutionIQ has a durable, software-based economic profile – with 75%+ gross margins and strong customer retention with approximately 95% gross dollar retention. With fantastic products and a large white space in front of it, the business is also growing rapidly, with a net dollar retention over 150%.



I have been very impressed by the many cultural similarities between CCC and EvolutionIQ. Both companies have top-tier talent creating industry standard solutions, a culture of solving complex problems through innovation, strong relationships with customers and the communities they serve, and purpose-built, mission-specific solutions focused on delivering tangible ROI to customers while empowering claims professionals to create a better environment for all stakeholders.

We are excited to welcome the EvolutionIQ team to the CCC family and are thrilled to be working together to accelerate the transformation of the insurance economy. I believe that together, CCC and EvolutionIQ will help insurers leverage AI more broadly to deliver a profound improvement for themselves, their customers, and their claimants, and over time we will be able to deploy these capabilities more generally across our customer base to unlock many additional pathways for growth. This acquisition is an important step toward enabling our broader vision of making the claims and repair experience “just work” for our customers and theirs.

I will now turn the call over to Brian to talk about the transaction in more detail.

BRIAN HERB, CHIEF FINANCIAL OFFICER: Thanks, Githesh. I am very excited about this transaction. Not only does it make sense strategically, as Githesh laid out in his remarks, but EvolutionIQ is a high-quality, high-growth business with attractive gross margin and free cash flow characteristics and combining with the business is very positive for CCC from a financial perspective.

As noted on the Transaction Summary Slide, we are acquiring EvolutionIQ for \$730 million. We expect approximately 60% of that value will be paid in cash, which will be funded with cash on hand and an incremental term loan of \$225 million. The other approximately 40% of consideration will be paid in newly-issued CCC shares. The definitive agreement was signed last night and we expect the transaction to close in Q1 of 2025 pending customary closing conditions.

In conjunction with the acquisition of EvolutionIQ announced today, this morning we also announced that our board of directors has authorized a \$300 million share repurchase. This is roughly the dollar value of the new shares we expect to issue as part of the EvolutionIQ transaction. While the approximately 40% stock consideration is important to align EvolutionIQ’s leadership and team with CCC’s long-term success and value creation, we are cognizant of the dilution created by the equity being issued. This share repurchase authorization is intended to act as an offset to that dilution by returning capital to shareholders.

The strength of our balance sheet supports our ability to execute this transaction, with net leverage after closing expected to be about 2.3x vs. the 1.3x at the end of Q3. Note that when



we came public in August 2021 our net leverage was just under 3x – 2.9x to be exact – and that as a private company we operated with net leverage at much higher levels.

As we have discussed in the past, a key priority for our capital allocation is M&A that can benefit CCC through product-line extensions, geographic expansion, and TAM-expanding adjacencies. This transaction hits all three: product line extensions through AI-enabled medical summarization and next best actions for claim resolution, geographic expansion with an early footprint in international markets, and the addition of attractive TAM-expanding adjacencies and new logo opportunities in disability, workers' compensation, and general liability.

Prior to EvolutionIQ, we were largely focused on the \$10 billion plus portion of our \$35 billion plus TAM represented by US Auto. As you can see on the First TAM Slide, the acquisition of EvolutionIQ expands our footprint into the broader \$15 billion TAM represented by the US P&C and Disability market overall. On a combined basis, CCC and EvolutionIQ will have customer relationships with 23 of the top 30 US P&C insurers and 7 of the top-15 group disability insurers by net written premium. This greater reach creates numerous opportunities for future growth.

On the Second TAM Slide we break out that \$15 billion plus TAM to show that with EvolutionIQ included CCC solutions will be able to address approximately \$7 billion of the total market opportunity.

I'd like to turn next to EvolutionIQ's expected contributions to CCC's financials moving forward.

EvolutionIQ is a high-growth SaaS business with gross dollar retention of approximately 95% and net dollar retention over 150%. We expect revenue contribution from Evolution IQ of \$45-50 million in 2025. As we think about the impact of EvolutionIQ in the couple of years beyond 2025, we expect it to contribute 1-2 points of incremental growth above CCC's existing core long-term revenue growth guidance of 7-to-10%.

EvolutionIQ's gross margin is over 75%, broadly in line with CCC's gross margin. As a result of investments to support its high revenue growth, we expect EvolutionIQ to have a modest loss to adjusted EBITDA in 2025, including integration costs, but a modest gain on free cash flow. In 2026, we expect to return to our previous cadence of 100 bps per year of adjusted EBITDA margin expansion as we progress toward our goal in the mid-40%.

As part of the acquisition of EvolutionIQ, we will be absorbing about 3 points of stock-based compensation for a total of 15% in 2025. Prior to the acquisition, CCC was trending toward 12% and believe this temporary step-up is important for alignment and retention of our new team members. We expect share-based comp as a % of revenue to decline from that 15%



level beginning in 2026, and we will provide more details when we report Q4 results in late February next year.

We are excited about the impact EvolutionIQ will have on the business. We are buying a proven, world-class AI already operating at scale and we believe this will further accelerate our vision for leveraging artificial intelligence, an event-based architecture, and the connectivity of our multi-sided network to deliver intelligent experiences to our customers and the industry at large. The acquisition of EvolutionIQ is an important step in making that vision a reality.

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

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