CCC Intelligent Solutions Inc. (Nasdaq: CCCS)

1Q24 Earnings Call Transcript

April 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 first 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 am pleased to report that CCC began 2024 on a strong note. In the first quarter of 2024, CCC's total revenue was $227 million, up 11% year-over-year and ahead of our guidance range. Adjusted EBITDA was $94 million, also ahead of our guidance range, and our adjusted EBITDA margin was 41%.

Our industry continues to be in the early innings of digital transformation, and CCC is well-positioned to be our customers' partner of choice for that transformation. On today's call, I'd like to share how the CCC Intelligent Experience Cloud is helping our customers navigate this journey, and the growing adoption we are seeing across our recent innovations. I will also provide an update on the continued progress we have made in broadening our shareholder base.

My first topic is the role of the CCC Intelligent Experience Cloud in enabling our customers' digital transformation.

CCC was an early pioneer in SaaS and cloud computing, with the initial launch of our cloud platform back in 2003. Since then, we have continuously expanded and strengthened our capabilities, and today our hyperscale, 100% multi-tenant platform connects more than 35,000 companies and processes well over $100 billion of commerce annually. This technology backbone powers a wide range of mission-critical applications for the customers we serve – insurers, collision repairers, auto manufacturers, parts suppliers, and more – and is a key enabler of our ability to provide continuous innovation to customers with a rapid return on investment and minimal effort on deployment.

Our cloud platform is also highly efficient – in 2023 our engineering teams deployed more than 1,400 releases to customers with high operating leverage, scalability, and reliability. Our transition from private to public cloud infrastructure last year further reinforced these advantages.

Across the markets we serve, customers are increasingly looking to CCC to make it faster and easier to adopt our solutions and drive innovation into their business. This trend is being driven by a wide variety of forces – including macroeconomic changes, labor shortages, and increasing complexity in day-to-day operations– challenges that can best be addressed through a highly-integrated, highly-connected, AI-enabled platform. And critically, they are looking to rapidly transform and simplify their businesses without disrupting their existing operations. Doing this at scale requires intelligently orchestrating the data and workflows not just within a customer's four walls, but across the consumers and businesses they interact with. And with the recent introduction of the CCC Intelligent Experience Cloud – or "IX Cloud" for short, we are enhancing our customers' ability to solve this many-to-many problem with a cloud platform they already use every day.

The CCC IX Cloud overlays a new event-driven architecture into CCC's existing cloud applications, customer workflows, and customer and partner systems. This microservices-based approach will 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. Customers do not need to upgrade as the CCC IX Cloud represents an enhancement to their existing CCC cloud platform. It just gets better.

Throughout our history, CCC has helped customers navigate the complexity of our industry, and used advanced, highly-connected technology to solve their most pressing business problems. The CCC IX Cloud is designed to accelerate this journey in a way that is purpose-built to solve for the substantial increase in complexity in the P&C insurance economy we see today.

Unlike most industries, where an existing supply chain converts raw materials into finished products and distributes them in a predetermined and repeatable manner, instead in the P&C insurance economy the supply chain is created spontaneously after an accident occurs. Each insurance claim and collision repair is unique, and so are the hundreds of different decisions, tasks, and data flows that go into those claims and repairs. These are crucial moments for our customers and their customers – and our new event-driven architecture helps to align this highly complex supply chain so our customers can drive a step-function improvement in their operating performance and consumer and employee experience. We are excited to see what they invent.

My second topic is the growing adoption of our solutions. Our solid performance in Q1 was driven by the continued expansion of our multi-sided network, and traction from new and existing solutions. In addition, we began rolling out the new top-20 APD insurance client we announced last year and had multiple insurers renewing and expanding their relationships with CCC. We have also continued to add new repair facilities and parts suppliers to the CCC network.

We also saw strong demand and adoption of our AI-enabled solutions across our different customer groups. For Estimate - STP, for example, we continue to see progress across volume, adoption, and the number of clients testing, piloting and rolling out. Other examples are CCC Subrogation, our suite of solutions that applies AI and workflow automation to both outbound and inbound subrogation, as well as Impact Dynamics, which uses computer vision to predict potential injuries to the occupants of a vehicle involved in an accident based on photos of the damaged vehicle. Both of these solutions continue to deliver significantly positive results for the customers using them, often in the multiple millions of dollars, resulting in growing interest from more customers. We expect these positive demand and adoption trends to continue given the significant bottom line benefits insurers are seeing from these solutions.

For repair facilities, we are continuing to add new rooftops and are seeing strong adoption of new products like Mobile Jumpstart, the solution we launched at the end of 2023 that uses AI to dramatically reduce the time it takes an estimator at a repair facility to generate an initial estimate, from an industry average of a half an hour or more to less than 2 minutes. In Q1, almost 5,000 repair facilities used Jumpstart to complete tens of thousands of repair estimates.

We are also continuing to see strong interest in the expansion of CCC ONE beyond its traditional focus on repair operations to help our customers run their businesses overall. Two examples of such solutions are Amplify, a quick and easy way for repair facilities to set-up a modern, professional-looking website with deep integration to CCC ONE, and our consumer payment solution, which has already enabled over $1 billion in partner payment collections for our repair facility customers. We feel good about the early traction and growth potential for both of these solutions and see many additional category expansion opportunities for repair facilities given our platform, network, and AI capabilities.

The progression of these and other new solutions follows a pattern of innovation that we have observed over multiple decades. Building a great product, grounded in tangible customer value with a rapid ROI, provides a long-term runway for growth and strong, referenceable customer relationships which in turn leads to additional opportunities.

The credibility we established with our original product, a tool to help insurers assess total losses, provided a pathway for us to deploy a state-of-the-art solution for estimating damage to repairable vehicles. We then extended those same estimating capabilities to repair facilities, establishing direct repair and the expansive insurer-repair facility network that exists today.

In the years since, a steady stream of industry-first innovations has extended our platform and delivered additional value to customers: Workflow tools for insurers to manage the appraisal process. An advanced operating system for repair facilities to help them manage their day-to-day operations. Integrated parts ordering with thousands of connected parts suppliers. Mobile and then AI-based digital solutions that range from First Notice of Loss to appraisal to casualty and even subrogation. And more.

Our track record of delivering these and other innovations has, at its core, been enabled by the depth of our customer relationships with insurers, collision repairers, parts suppliers, and auto manufacturers. The result is an innovation flywheel that lets us incubate new concepts, test them with initial customers, and then deploy reference-level solutions at scale across our customer base. And because we have such a broad portfolio of innovation, different customers can adopt different solutions in different increments based on their particular needs over time. This dynamic is at the heart of our durable, long-term business model and enables us to consistently invest in R&D across economic cycles – $150 million last year and well over $1 billion in the past decade. And with our projected 2024 revenue representing a fraction of the $10 billion plus market opportunity we see in digitizing the P&C insurance economy, we believe we have decades of growth ahead of us.

My third and final topic is an update on the continued progress we have made in broadening our shareholder base.

Since going public, we have made significant advances in expanding our shareholder base and increasing the liquidity of our shares. The secondary offerings and block trades from our private equity investors over the past 6 months have increased our public float as a percent of total shares outstanding, as measured from Bloomberg, from about 30% in

October of last year to about 60% currently. We see this as an important development toward fulfilling our commitment to our shareholders.

Let me conclude by saying that we are excited about what we have planned for 2024. The rising demand for AI-based solutions across our customer base combined with our track record of driving growth through innovation and increasing the ease of adopting our solutions via the CCC IX Cloud, gives us confidence 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 in more detail.

BRIAN HERB, CHIEF FINANCIAL OFFICER: Thanks, Githesh.

As Githesh highlighted, we are seeing strong innovation and momentum across the business as reflected in our track record of driving growth through category expansions and cross-selling, our IX Cloud architecture enables easier client adoption of our solutions, and our durable business model. We are pleased with both 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 first quarter 2024 results and then provide guidance for the second quarter and full year 2024.

Total revenue in the first quarter was $227.2 million, up 11% from the prior-year period. Approximately 8 points of our growth in Q1 was driven by cross-sell, upsell, and adoption 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. Approximately 3 points of growth came from our new logos – mostly with repair facilities and parts suppliers. About 1 point of growth in Q1 came from our Emerging Solutions, mainly Diagnostics, Estimate – STP and Subrogation.

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 Q1 2024, our GDR was 99%, which is in line with last quarter. Please 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 to 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 Q1 2024 our NDR was 107%, 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 $177.0 million. Adjusted gross profit margin was 78%, down slightly from 79% in Q4 and up against 76% in Q1 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 margin target of 80%.

In terms of expenses, adjusted operating expense in Q1 2024 was $92.9 million, which is up 8% year-over-year. This was mainly driven by a higher IT-related costs as well as investment in our customer-facing functions. Adjusted EBITDA for the quarter was $93.7 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 $191 million in cash and cash equivalents, $782 million of debt. At the end of the quarter, our net leverage was 1.6 times adjusted EBITDA.

Free cash flow in Q1 was $39.6 million compared to $18.5 million in the prior-year period. Free cash flow on a trailing 12-month basis was $216 million, which is up 56% year-over-year. Our trailing 12-month free cash flow margin in Q1 2024 was 24% compared to 17% a year ago.

Unlevered free cash flow in Q1 was $52 million, or approximately 55% of our adjusted EBITDA. Q1 is usually our lowest conversion quarter because it is when we pay our annual incentives. 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.

I'll now cover guidance, beginning with Q2 2024. We expect total revenue of $228.5 to $230.5 million, which represents 8-9% growth year-over-year. We expect adjusted EBITDA of $89 to $91 million, a 39% adjusted EBITDA margin at the midpoint.

For the full year 2024, we expect revenue of $944 to $950 million, which represents 9-10% year-over-year growth. We expect adjusted EBITDA of $389 to $395 million, which represents 41% adjusted EBITDA margin at the midpoint.

So, three things to keep in mind as you think about our second quarter and full year guidance for 2024.

The first point is that we remain confident in our 2024 financial targets and have increased the midpoint of our guidance ranges. We were pleased with the broad-based strength across the business in Q1, but keep in mind that our year-over-year revenue growth rates can vary quarter-to-quarter because of contract timing, variations in subscription revenue contracts with volume-based elements, and the pace of client adoption of new solutions.

The second point is that the Emerging Solutions contributed about 1 point of growth in Q1 and we expect that the upsell / cross-sell of these new solutions will contribute about 2 points of growth in 2024 as they continue to scale. Githesh mentioned in his remarks, we are seeing positive feedback in client engagement around these Emerging Solutions and this gives us confidence around the contribution to growth in the back half of 2024.

The third point is that in prior years we experienced seasonality in our adjusted EBITDA margin, with second half levels being above our first half levels and Q2 being the low point for the year. 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.

Overall, the strong trends we're seeing in renewals, relationship expansions, and new solution adoption reinforce our confidence in the underlying strength of the business. The combination of our durable business model, advanced AI capabilities, interconnected network, and the broad solution set puts us in a unique position to help our customers in the P&C insurance economy reduce their cycle times and administrative 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 margins 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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