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<<Matt Carletti, Analyst, JMP Securities LLC>>

Well, thanks everybody. It's great to have you all here. See everybody in person, particularly getting late in the day. It is a real pleasure to have Doma here with us for the next half hour. Max Simkoff, Founder and CEO. Thank you for being here. It's great to see you. Could you take a few minutes and just tell us a little bit of your background and kind of how Doma came to be?

<<Max Simkoff, Founder and Chief Executive Officer>>

Sure. So my background prior to founding Doma, I founded and was the CEO of an enterprise software company, have plenty of war stories to tell about that. And it was so tremendously exciting. I decided I wanted to go and start a title insurance company. So I started the company after I went through an experience that probably most of the people in this room have been through where I was closing a residential mortgage transaction.

I was buying a condo and I was sitting in the office of a title company and I felt like I was in a funeral parlor. So I watched as like stacks of paper got mounded on top of each other. I signed a bunch of stuff that I didn't understand for upwards of an hour. And then I paid roughly $2,500 for the privilege. And it kind of got me thinking this seems like a market that's really ripe for someone to put technology against it. Contrary to most people's belief about Silicon Valley entrepreneurs, they don't have that epiphany all at once. Mine came to me after I then did three or four rate and term refinances over the next couple years and basically just kept doing this whole thing over and over and over again.

And so it was probably by the third time that I was like, yeah, it seems like you could probably use machine learning to remove a lot of the friction, frustration and expense involved in the process of closing mortgage. And that's effectively the whole premise of Doma as a business. We're putting technology against a process that hasn't changed in upwards of 150 years, the title and escrow industry and the United States drives somewhere between $25 billion and $30 billion of revenue a year. And they're doing that all the old fashioned way.

And so we came onto the scene and said, we think we've got a better way. We can make it go better or faster in many cases cheaper. And we now do that across a variety of different distributions that we could get into more detail on.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Perfect. Yeah, we'll dig right in. Maybe start with Doma today, kind of the title escrow close and kind of – in each of those kind of what you are doing and importantly, kind of how that looks versus the status quo? I got a market for those who don't know, it's a market where what roughly 80% is split among four incumbents that are all 100-plus years old. Maybe just kind of – what exactly kind of are you doing in each of those and what's the value proposition to the customer, why you are doing that and how are they reacting?

<<Max Simkoff, Founder and Chief Executive Officer>>

Sure. So let me start by outlining the status quo, just a mini kind of history lesson on how the title and escrow industry came to be and what they do. This is unique mostly to the United States. In this country, the liability to establish clear ownership of property doesn't sit with the county municipality as it does in much of the rest of the developed world. There was a Supreme Court decision that happened in the late 1800s basically said it was a buyer beware kind of market.

And not long after the first title insurance company was founded. And since then, the process of doing this product has mostly been human beings looking backwards in time, over historically recorded property documents to find and then fix, call them clerical issues. Most often that would stand in the way of establishing clear ownership to the property and to make this even more confusing and maybe even somewhat absurd, that same process happens when you refinance the property.

So if you buy a property, this whole manual labor process is happening to establish clear ownership and title insurance. And then there's some fee for service work that the title company does around closing the transaction. But then when you refinance, they basically do it again. And for any of you who would like to go as deep to understand what is actually being insured is basically a new policy to effectively indemnify the new lender against anything you, as the owner of the property has done, which anybody who's doing a rate and term refi is usually a good actor. So there was never any reason for them to have done anything wrong. But the whole process gets done again.

And the borrower ultimately pays for it on a refinance transaction. And so with this kind of status quo thing, what we did that was unique is we said, we don't need to do that, that manual work where you check all the historically recorded property documents, right. We figured out that because, you're basically only covering the risk that's carried from the time of the original purchase to the refinance and because the only risk of a claim ever being made, because the policy is to the benefit of a lender is if the property goes into foreclosure, we had a pretty attractive slice of risk that we were able to play with.

As we developed a predictive algorithm to basically turn this days long process of manual research into something that took seconds. And that was the first thing that we rolled out that was innovative was an instantly underwritten refinanced title insurance policy. A bunch of people told us this would not be – that compelling lenders wouldn't care about title insurance being underwritten faster, borrowers wouldn't care about paying less fees for the title insurance. And it turns out that everybody was dead wrong. Because that basically became the flagship feature for a broader platform across all of refinance transactions, applying machine learning to not just title premium, but also the escrow and settlement stuff. And that really was including until recently kind of the growth engine of business.

So it helped us sign some of the largest lenders in the country, Wells Fargo, Chase Home Lending, PennyMac, Homepoint, many others who send us a significant amount of their refinance volume to go through the technology to effectively close loans better, faster, cheaper. We have since recently moved that technology to the purchase market. So we have another part of our business that sells through effectively local real estate agents. And we're effectively taking a lot of those same things, the application of machine learning to underwriting title insurance, and settling the fees and doing the payments and doing the signature and just moving it to purchase transactions that we sell through a distribution motion that goes through with local real estate agents.

So a lot of detail to cover there but to get back to your original question, it's really that we're applying machine learning against each one of these kind of status quo, manual backwards looking research processes that the industry has used for a very long time. Some of it's really glorious like true groundbreaking applications of computer vision to identify placement of signatures on a page kind of stuff. And others of it is like just pick and shovel work that we do with really great data science put against the data that we're getting to make these transactions go faster.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Yeah. Maybe sort of just kind of take a pause there and helping people understand the differences between maybe what you are doing and a lot of the rest of public insurtech today in the sense of like what the insurance is, right versus like you live in a world of 4% loss ratio versus where they are and how maybe personal lines insurance, which is really what the rest of insurtech is today is a very like trying to predict the future as opposed to what you are trying to do and how maybe AI and what you're doing lends itself to that with much more certainty?

<<Max Simkoff, Founder and Chief Executive Officer>>

Yeah. So the short answer is that the title insurance industry really should not be considered true insurance, right. I think of it more like financial guarantee. It's a backwards looking research process to find and fixed issues so that you won't actually carry any risk. That's the way the industry's been constructed. And that's how they have validated – the incumbents have validated over time. Hey, the reason the loss ratio is so low is because we did all this work upfront to fixed risk from occurring in the first place. Loss ratios in the industry traditionally have run sub 5%, which is kind of nuts like that doesn't sound like an insurance product, right. And what we did was we said, well, it should be more of an insurance product, right. We should be able to forward predict risk, very efficiently using property data.

And we should be willing frankly, to stomach a higher loss ratio than the industry has historically had because it could be twice what the industry's historic loss ratio is. And it still sounds like a rounding error to anybody who's looked at insurance. So that's – I mean, we see that as a really attractive facet of the market and the other really attractive facet of the market that I think is unique to us that you don't find with other insurance or insurtech companies is there's a pretty significant fee-for-service component of what we do too, right.

So we're underwriting an insurance policy using algorithms, but we're also expected to close the entirety of the loan, right. And that means that we set up the escrow, we make sure the earnest money gets funded. We calculate all the fees, the transfer taxes, the prorated property taxes, all that good stuff. And then we do all the wiring of the money, right. We are literally the clearing house for the mortgage transaction. And we get paid a fee for that piece as well.

So there's a really attractive margin improvement opportunity on the underwriting piece and which I don't think you find in most insurance like a lot of insurance is like, there just not much left in a business that has a 60%, 70%, 80% loss ratio. In our business, we're looking at less than a 6% loss ratio. So there's plenty of margin opportunity on the insurance and there's plenty of margin opportunity on the escrow and settlement work, which has traditionally also been manual. And we put machine learning against that too.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Let's talk a bit about beyond title escrow close. I mean, you have a vision to be more than that and kind of maybe some of the ancillary offerings that you're working on and we might see next and importantly, why those products might even further improve kind of the value proposition that Doma brings to the real estate transaction.

<<Max Simkoff, Founder and Chief Executive Officer>>

Yeah. So see the problem that we're solving is how do you effectively close a residential real estate transaction instantly. And when you think about it, there's actually only five contingencies that stand in the way of being able to do that. And if you live in San Francisco, you might actually have experience in seeing what an instant digital real estate transaction looks like. It's called a non-contingent, all cash offer. Okay, it's remarkable, by the way. You can sign your docs on DocuSign. There's no appraisal, there's no financing contingency. You don't need to inspect it because what does it matter? Like you're basically buying the land and these transactions happen many, many times a day within five miles where we're sitting, right. Those five contingencies that prevent that in most rest of the country are title and escrow appraisal, an inspection, financing and homeowner's insurance, right.

And so we look at those five key contingencies as the things that we want to really dramatically remove from the process using our technology. We started with title and escrow, our next biggest focus, which we announced on our most recent earnings call is appraisal, which to us looks very similar to the way the title looked several years ago. It's a manual process, a human being going and taking interior and exterior photos, a piece of property, basically to then write a report and say that it's worth exactly what an unrelated third-party is willing to sell it to an unrelated third-party buyer.

And just think about how ridiculous that is for a second, right. Magically 98% of appraisals come back right on the money as to how much somebody has been willing to pay for a property that someone else has been willing to sell, right. We like that risk, right. We say, machine learning can predict valuation of properties. It can run market comps. It can do it in an unbiased way. By the way, this is become a hot button issue for the government sponsored enterprises who have historically kind of been the crux of what's driving appraisal requirements. They're now start and to say, well, it turns out that when human beings going to people's houses, they tend to assign values to people's homes in ways that are biased and not in a good way, by the way.

So we can put machine learning against that. We'd like to insure it and guarantee it in much the same way that we put machine learning and guarantee title and escrow. Across those two pieces, by the way, title and appraisal, that's probably half of what drives the time and process delay in any transaction. So those really are our two primary focus areas. The other three contingencies of those, I think I can safely say we don't have any interest or plans to go into financing that would be becoming a mortgage originator. No offense to any mortgage originators but we don't want to be in that business.

And as it relates to things like inspection or homeowners insurance, those are areas where we see really interesting opportunities for partnership with other leading players like Goosehead, who many of you have probably already heard from, we think there's some really cool people in the market who are doing interesting and innovative stuff that could be interesting partnership opportunities for us to drive more value.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Great. Let's dig into kind of the distribution sides of the business. So on the enterprise side, like you guys have gained share very rapidly. You've talked about on your conference calls, signed up Chase and Wells Fargo, and so on, like big household names. Can you talk a bit about kind of why you've been able to rapidly scale there so quickly and specifically you've given, I think the example before, don't need to name names, but kind of like what's that scorecard, when they look to distribute their volume, who gets their title volume? How they distribute that? And why Doma wins that fight?

<<Max Simkoff, Founder and Chief Executive Officer>>

Yeah. So they're looking for better, faster and cheaper as well. So if you're are a large lender like Chase and you've centralized a lot of your mortgage operation and you move freight a lot of it, right? So especially in a heavy refi environment, my best observation in looking a lot of mortgage originators the last two years was that many of them had to effectively artificially constrain supply, because there was too much demand, right?

And so like, they're just basically managing a factory of opening and closing mortgages, and then they have these providers that they use for things like title or appraisal. And they've got these monthly scorecards that they look at where they're literally looking at your turn time, not overall, but actually on every single step. It's actually kind of interesting.

So like they're not just looking at turn time on underwriting title insurance, they're looking at turn time on turning something called a closing disclosure back and forth, which is the main fee statement. And they're measuring the time of each of these things. And so we came onto the scene and we basically reset the scorecard, right? So I think a typical SLA of a best performing provider on underwriting title insurance was like two days or something like that. And we were like, why can't it be two hours, right?

And that really was transformational for us because when you get to rewrite the rules of engagement, now you're basically helping them rewrite the scorecard and then they're measuring you against a criterion that effectively only you can fulfil, right? And so, we helped reduce these turn times on these things. We did it a higher quality and then the kind of trifecta was that we were doing at a price to the end consumer. It was generally speaking like 15% to 20% on a national average below the lowest cost competitor.

So the pitch to a senior mortgage executive at a Chase is like, you plug it right into your system, it works minute one, it's much faster than what it replaces, it's much higher quality and it's much cheaper to your end customer, which is probably why even last quarter where I'm sure we're all aware there was a pretty significant contraction in the refinance volume probably to the tune of like 40% to 50% contraction. We still saw roughly 300% closed order growth across our enterprise channel. So I think that that's a pretty good indication of just how differentiated the solution is and how much share we're able to take there.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Great. And as we shift to the local market, maybe talk a bit about kind of where you are in that process of kind of building out Doma within the local market channel. And what are some of the challenges and opportunities associated with kind of that that side of the market that might differ from what we've kind of known of Doma mostly to date?

<<Max Simkoff, Founder and Chief Executive Officer>>

Sure. So the local market is effectively where we originate purchase volume today because real estate agents are primarily the source of referring title on a residential purchase transaction. There's a lot of different reasons for this, some of which makes sense, some of which don't, they're relatively unimportant to go into detail on. What is important is that we basically have local market sales and fulfilment coverage built primarily on the back of a title company we acquired from Lennar, which is the largest home builder in the country, and they're our largest shareholder.

And that gives us a local market presence in, I think – I don't know, roughly – I think we have roughly 100 local metro kind of coverage areas where we have the sales focus to get in front of real estate agents and pitch them on this better, faster approach. And then the idea there is that we are starting to move volume that is currently being fulfilled in our local business, in those local locations now happening through the technology with centralized operations service model behind it.

So it's – the best way I've heard this described by the way is like one of our angel investor's talks about this model, they call hot swap business. An example they use is Flexport, for example, like go into an existing market where there's established product market fit effectively it's a giant market. And take the – you basically swap, you do the hot swap of like managing the transaction better, faster in a better environment. You're literally taking it out of the local branch office and you're putting it into the cloud, using technology with the centralized service model behind it.

And so that's – a lot of our focus this year is going to be moving a significant amount of our local purchase volume to the technology, to what we call the Doma Intelligence platform, which we've already proven has worked in our enterprise channel. And I would just keep in mind that purchase transactions for those of you who are unfamiliar with the title and escrow business, these can be like three or four times the gross revenue on an average price point as an enterprise refinance transaction. So, pretty significant price difference on the top line, which means our ability to drive margin improvement by moving into the technology is also amplified as we do that.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Great. And then you touched on it briefly, but maybe the housing market's changing pretty rapidly, right? And I guess it's not a surprise, right? I mean, like we've – maybe we've seen it coming at some point or just a matter of when. So can you maybe talk about kind of how you've seen that impact on your business? And does it change your strategy at all? Does it change your outlook at all? And you guys were kind of through this back process, obviously put numbers out there that everybody can see? And what was – maybe just remind people of kind of what was assumed in those numbers to start? And does this – kind of what does that mean for where we are today?

<<Max Simkoff, Founder and Chief Executive Officer>>

Yeah. I think everyone here will enjoy the next several years of holding companies of de-SPAC accountable for the projections that they made when they went through their de-SPAC. As well, I think they should be held accountable to those projections. So we projected that we would do $226 million of what we call retained premiums and fees last year consider that the equivalent of net revenue. There's a gap between our gross revenue or gross GAAP revenue and our retained premiums and fees has to do with how much we remit to third party agents and a part of our business.

But we said we do $226 million. I should know what we said we do on gross profit. I think it was probably $85 million to $95 million or something. We raised this projection significantly. I think our first quarter out of the gate, we ended up doing $260 million of retained premiums and fees for the year. We did north of $110 million, I think of gross profit I want to say $113 million. So, pretty significantly beat the projections we made for last year then we get to this year, right? So when we made our projections in February of last year, we used the Mortgage Bankers Association projections for mortgage origination. The short story is they assume that the 30 year fixed rate would be at 3.4% by the end of Q1 of 2022. As of a few weeks ago, we're already north of 4%.

And so that has had some flow through to our projection on revenue. We're still projecting slightly higher retained premiums and fees this year than we put in our original SPAC presentation where there's a more significant differences in the adjusted EBITDA number for the business. We were forecasting a negative $10 million adjusted EBITDA number for the business for 2022. We've now communicated that it'll be negative $70 million to negative $90 million. And the bulk of the difference is investment that we're making in the business primarily in the form of customer acquisition, product development in some of the key areas that I'm mentioned, that it helped us expand our adjacencies. Some degree of what I'll call double staffing as we move volume from our local business to the platform, which should get rationalized by next year-ish this time.

And then my favorite is a basket of corporate expenses that we hadn't considered as a result of going public. Most notably our D&O insurance policy ended up coming in a whopping $7 million higher than where we thought it was going to be. Which again, we expect over time, we'll get much more reasonable as we go from being a de-SPAC company to just being a best-in-class publicly traded business.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Perfect. And then kind of my last question before we can open it up is, a lot of kind of the focus on public insurer tech has shifted very quickly to kind of path to profitability. As part of your guidance, that you gave just a few weeks ago on your quarter, you reiterated that you expect to reach EBITDA profitability during 2023. So can you talk a little – which I don't think anybody else is at least publicly on that sort of timeline?

<<Max Simkoff, Founder and Chief Executive Officer>>

Yeah.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Nonetheless, investors are obviously kind of – everything's getting treated in the basket and there's some broad concern out there about some companies need to raise additional capital in this sort of environment, given high cash burns and otherwise. So can you talk about from a capital perspective, how investors should think about the funding that you guys already have on hand? Do you think you can achieve kind of the guidance you have and the business plan that you've put out there saying that the DPAC presentation or whatever it is with the capital that you have on hand? And really bottom line is, you foresee a need to return to capital markets the near intermediate term.

<<Max Simkoff, Founder and Chief Executive Officer>>

Yeah. So to answer the last question, no, we do not foresee a need for additional capital in the business to realize our plan. And you can look at the historical performance of the business prior to us going public to see that we have – we've been fortunate to manage this business quite capital efficiently. We're also fortunate that we're in a market where again, the unit economics opportunity for us is quite significant and our existing unit economics are already quite good, right?

We're not in a 60% loss ratio business. And we had already shown I think a pretty significant degree of efficiency in our business prior to going public that helped give us the confidence that that we have developed that we should be investing through the cycle here. And that we can invest through the cycle and still achieve our near-term path to profitability, as you mentioned. So we did reiterate that on our most recent earnings call that we will get to adjusted EBITDA positive in 2023.

And we have I think roughly $380 million of total cash on the balance sheet right now, roughly $300 million of which is like total unrestricted operating cash that we can use for investing in the business. So look, I consider it the business that you end up is always a equal parts strategy and luck, right? I think we've had a great strategy and we're going to continue executing it as we've planned to do. We're a bit lucky and that, as I mentioned earlier, it's not really – we're not really in a true insurance business. And that's lucky because there's a lot of additional headroom, I think for margin expansion on top of an already attractive unit economics profile.

<<Matt Carletti, Analyst, JMP Securities LLC>>

Great. We got about a minute left. Anybody, any questions in the audience?

<<Max Simkoff, Founder and Chief Executive Officer>>

I know all of you have burning questions. You've been dying asked for years on title insurance, right?

Q&A

<Q>: In the local markets, where are you in, if you were to go to Boston or Jersey? Do the brokers know to recommend to their clients that don't exist, and here's a cheaper way, more efficient way, so eight out of 10 brokers know that your service is there.

<A – Max Simkoff>: Yeah. Good questions. So we've rolled – we're rolling out the Doma Intelligence platform for local regionally. We haven't publicly announced yet.

We've announced that its live and we're rolling out a number of new locations on it, but we've – that is, it's safe to say that's concentrated in a region it's not Boston. Unfortunately, if you're from there, you won't be able to use it there in the next few weeks. But we'd anticipate having the vast majority of our local regions on the platform in the next four to six quarters. So that's the general timeline.

Where it is live today? We've already enabled the sales force, they're actively selling it to local real estate agents. And I can assure you those local real estate agents already taking full advantage of the platform as we speak. And it has been something in our discussions with investors. We've gotten some requests recently for, hey, could you guys share some more detail about specifically where are you in that rollout and which regions, when and how we see the impact. And so that is – that's something we're going to take back and see if we can provide some more color on the future.

<Q>: How do you solve the survey risks on the title policies?

<A – Max Simkoff>: So look the broad answer, I mean, apologies to anybody in the room who is in the title industry is that there's not really a lot of risk involved in these transactions. So the way we validate our model is we basically, we had all the answers, right? We had all these completed preliminary title search reports, the way the industry used to do it. That said, here's all the things that got found, and here's how problematic they were.

And in order to get this model approved, we had to go to the – we had to go to Fannie and Freddie and tell them, hey, like this is going to work. And they made us back tested against some pretty abysmal market assumptions, like the model being wildly off, a macroeconomic recessionary scenario that matched 1933, when one in four mortgages went into foreclosure, it passed with flying callers on everyone. So like, on survey risks specifically, I'd have to ask our data science team like what – there certainly is a slice of survey risk in there, but it's quite small.

<Q>: So it just falls into your loss ratio.

<A – Max Simkoff>: It does. Yeah. Loss ratio includes all what we call denominated and non-denominated risks. So denominated are like things with a numerical value, like mechanics liens, non-denominated would be things like survey.

<Q>: So instead of paying for a survey, so that I can also pay for title insurance, we're just taking the risk.

<A – Max Simkoff>: That's right. Yeah.

<<Matt Carletti, Analyst, JMP Securities LLC>>

All right. Great. Thank you, Max.

<<Max Simkoff, Founder and Chief Executive Officer>>

Yeah. Thanks.