

Doma Third Quarter 2021 Earnings Transcript

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Thank you, operator. Good afternoon everybody and thank you for joining Doma's Third Quarter 2021 Earnings Conference Call.

Earlier today, Doma issued a press release announcing its third quarter results, which is also available at investor.doma.com. Leading today's discussion will be Doma's Founder and Chief Executive Officer, Max Simkoff, and Chief Financial Officer, Noaman Ahmad. Following management's prepared remarks, we will open up the call to questions.

Before we begin, I would like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that is based on management's current expectations as of the date of the presentation. Forward-looking statements include, but are not limited to, Doma's expectations or predictions of financial and business performance and conditions and competitive and industry outlook. Forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results and/or from our forecasts, including those set forth in Doma's Form 8-K filed today.

For more information, please refer to the risks, uncertainties and other factors discussed in Doma's SEC filings. All cautionary statements that we make during this call are applicable to any forward-looking statements we make wherever they appear. You should carefully consider the risks and uncertainties and other factors discussed in Doma's SEC filings. Do not place undue reliance on forward-looking statements as Doma is under no obligation and expressly disclaims any responsibility for updating, altering or otherwise revising any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Additionally, during this conference call, we will also refer to non-GAAP financial measures, including retained premiums and fees, adjusted gross profit, and the other measures described in our earnings release. Our GAAP results and description of our non-GAAP financial measures with a full reconciliation to GAAP can be found in the third quarter 2021 earnings release which has been furnished to the SEC and is available on our website.

And with that, I'll turn the call over to Max Simkoff, CEO of Doma.

Max Simkoff, Chief Executive Officer, Doma

Thanks, Chris, and good afternoon everybody, thank you for joining us today for Doma's third quarter earnings call.

I spent my opening remarks in our first call as a public company this past August talking about Doma's growth, and how it is primarily driven through the application of cutting edge, machine-learning technology to remove giant chunks of friction, frustration, and expense from the historically tedious process of closing a residential purchase or refinance transaction.

And I'm going to introduce today's call with the same focus on that same theme, as demonstrated by three key drivers in Q3: Number one, our accelerating growth in Q3 was driven by our technology. Number two, our out-performance is showing no signs of slowing down and number three, we are now focused on applying our proven technology to more of the market— particularly the purchase market— as we look to further extend our market share gains in 2022.

Now, let's examine each of these points a bit further:

First, against the backdrop of a declining mortgage market, in particular for re-financings, Doma's Closed Order volume grew 39% YoY, with Doma's Enterprise segment growing at almost 400% YoY. As a reminder, Doma's Enterprise segment is where all of our proprietary Doma Intelligence platform and differentiated operations are fully deployed today and therefore, where the transformational benefits of our technology are most evident. In Q3, our tech-driven differentiation benefited from continued investment in our product. Specifically, we rolled out important new functionality to our Doma Docs capabilities that deepens its algorithms to tackle the more complex Closing Disclosure scenarios. For context, the creation of Closing Disclosures involve the manual and error-prone work of fee collaboration with lenders and typically represent roughly 20% of the entire closing process. Doma Docs uses machine intelligence to replace this manual process of delivering Closing documents, with a fully automated solution, driving better outcomes for our largest clients. As one example, we were able to drive a 32% increase in transaction processing efficiency for a top 5 national lender we serve, thanks to the reduction in turnaround time and manual file touches that a set of new computer vision capabilities in Doma Docs delivered in Q3. We also made further progress in building out new capabilities for our Doma Connect integration layer, which allows our largest clients to automate order creation and management. These new capabilities improved order flow across key middleware platforms used by our largest mortgage originators, making those connections more seamless and fostering further expansion of wallet share. The new Doma Connect capabilities delivered data elements via an XML endpoint to one of our largest strategic accounts that will enable them to automate a manual review process and drive faster transaction processing. Doma was their first partner to deliver this deep level of integration, which had been an outstanding request made of their traditional title & escrow partners for over two years. These new technology capabilities of Doma Docs and Doma Connect, building on the strong core foundation of our differentiated Doma Intelligence platform, prove that our technology is a key driver of our growth.

To dive a bit deeper now on the second key takeaway from Q3, our out-performance versus the market shows no sign of slowing down. In a quarter where overall market refinancing activity contracted by over 40% YoY according to the Mortgage Banker's Association, our Enterprise channel (which is almost entirely refinance driven) turned in 386% YoY closed order growth - due to both the addition of several new Enterprise customers as well as the expansion of wallet share with a number of our existing Enterprise customers. We also showed solid growth in closed Local Purchase orders vs. a double-digit market contraction in Purchase according to the MBA. And despite the likelihood that overall volumes for the mortgage market at large are expected to be significantly down in the near term, we remain bullish on Doma's expected out-performance going forward. This dynamic can best be seen by virtue of the strong growth in our Open Order volumes, which grew 41% YoY in the third quarter, also representing our third consecutive quarter of sequential growth.

Finally, moving to the third main takeaway— to extend our proven technology and operating model to more of the market as soon as possible, we are accelerating the pace of key growth investments inclusive of increasing our focus on migrating our Local channel transactions to the Doma Intelligence platform, as well as beginning to capture a larger addressable market opportunity in adjacent markets. With respect to the migration of Local channel transactions to the Doma Intelligence platform, we are confident that this will enable Local Realtors and Local Lenders to see more of the same value proposition that we've been delivering to our Enterprise partners with a faster, better and more affordable closing experience. We started this effort by moving Local refinance transactions to the platform this year, and are on

track to begin moving Purchase transactions to the platform later this quarter. This will be a heavy lift for the team over the next several quarters, but the longer run benefits are expected to be exponential. Additionally, our ability to invest some of the proceeds we raised earlier this year in building out solutions for the two key adjacent market opportunities of Appraisal and Home Warranty will help assure that we can maintain our record of out-performance not only through next year, but well beyond that as we execute on our long-term vision of creating an instantaneous, digital, and delightful closing process for our lender and real estate partners, and especially for our shared home owner customers.

As our team has started to recently put together our investment plan for 2022, we are focused on utilizing a significant amount of the proceeds raised by going public to expand the use and coverage of our Doma Intelligence platform throughout the year ahead, and to ensure our continued out-performance versus the overall title and escrow market. Additionally, we continue to develop our approach to enter adjacent markets such as the \$8 Billion dollar appraisal market and the \$3 Billion dollar home warranty market. As we finalize our 2022 plan, we will look to ensure that our scope and pace of investment next year and beyond will set Doma up to capture a greater share of the residential real estate value chain and innovate in adjacent markets that are as manually intensive as the traditional title and escrow market. Going public and raising the associated proceeds for these investments established our place as a growth business – enabling us to more rapidly morph our Local business, expand into new markets more quickly and launch new product functionality that extend the advantages of our Doma Intelligence platform. We intend to take full advantage of this favorable positioning.

Heading into the 4th quarter, we also remain focused on recruiting and hiring world class talent—not only as the company grows and evolves—but in many cases ahead of our planned growth. We are at the beginning of a multi-year journey to expand and grow our customer acquisition and fulfillment functions, and we believe we will be best served by aggressively recruiting and onboarding uniquely talented individuals to drive our rapidly-innovating customer acquisition and fulfillment functions - including many from outside the traditional real estate industry. In Q3 alone, we were able to add a number of critical new hires with diverse backgrounds from some of the leading tech companies on the planet such as Amazon, Apple, Facebook, Netflix, LogMeIn, and Splunk, among others. In parallel, our recruiting team added resources to ensure that we can continue to hire key talent across the company as we head into another year of growth.

As we deepen our talent bench, we are confident that the appeal of working to bring the real estate industry into the future will help us attract the best talent in the market. Our core vision and mission to make the home ownership process instant, delightful and more affordable resonates strongly with anyone that has been through a closing experience.

Due to the strength in our sales pipeline, the continued focus on technology and talent investment, and our accelerated pace of 41% growth in Open Orders during Q3—we are confident that we will finish the year at or above the high end of our previously stated full year growth outlook despite a softening mortgage market.

Before concluding my prepared remarks, I want to personally thank each and every one of our Doma associates across the country for their hard work, positivity, and passion for client service. Doma is built not only on financial strength and flexibility, but also on an unwavering client centricity that is earning us enduring trust. We would have none of those attributes without our talented associates who show up to work and prove their grit, selflessness, and determination each and every day. We thank all of our shareholders for your continued support and we look forward to updating you on our progress in the months ahead.

With that, I'll pass it over to Noaman who can provide more color on our third quarter results and the financial outlook for the remainder of the year. Noaman?

Noaman Ahmad, Chief Financial Officer, Doma

Thanks Max and good afternoon, everyone. As Max just discussed, we delivered strong third quarter results in a contracting market driven by increasing market acceptance of our differentiated offering. Based on this ongoing momentum as well as our visibility into year-end, we are confident we'll finish at or above the high end of the expected ranges for full year growth and profits. I'll come back to that outlook in a few moments.

But first, we generated revenue on a GAAP basis of \$162.6 million dollars, up 34% from the third quarter in 2020. As we have stated previously, GAAP revenue includes the portion of Third-Party Agent premiums that Doma does not retain. We place greater focus on Doma's retained premiums and fees, or RPF, which excludes premium retained by third-party agents. We believe this is a much better representation of Doma's underlying top-line performance. With this in mind, we grew our RPF to \$71.0 million dollars, a 31% increase versus the same period the prior year.

Our growth in the third quarter was primarily driven by a 386% YoY increase in Closed Orders in our Doma Enterprise channel. The continued strength in this channel was the result of significant wallet share expansions among existing clients, as well as 4 new client additions, a testament to the impact our machine intelligence technology is having in the market. Closed orders in our Local channel were softer but still significantly outperformed an overall 31% market contraction per the MBA. This out-performance was driven principally by 9% YoY closed order growth in purchase transactions for Doma at a time when the overall purchase market fell 12% YoY. Keep in mind that in the Local channel, we remain in the earlier stages of incorporating the full capabilities of our Doma Intelligence platform, and as such, are more limited in our ability to drive outsized growth. It follows that these strong results are a real testament to the team's execution.

Looking at our profitability trends for the third quarter, our main focus is adjusted gross profit, which grew to \$30.3 million dollars, a 10% increase compared to the same period in 2020. Adjusted gross profit as a percentage of RPF was 43% in the third quarter of 2021, compared to 51% in the third quarter of 2020.

This change in adjusted gross profit as a percentage of RPF was driven by two main factors:

- first, continued investment in our fulfillment staff and capabilities in advance of anticipated growth in our enterprise channel and the migration of our Local channel volume to the centralized Doma Intelligence platform
- and second, a mix shift towards refinance as our Enterprise business significantly outperformed the industry

Given our strong open order momentum in Q3, we expect these trends to continue in the near term.

Turning to Adjusted EBITDA, we continued to invest significantly across several areas consistent with our long term plan - namely customer acquisition, R&D, recruiting, and other indirect costs related to the migration of the Local business to Doma Intelligence. Combined with the impact of necessary investments made as part of becoming a public company, our Adjusted EBITDA this quarter decreased by \$19.5 million YoY.

With respect to the capital management side of the business, we continue to operate a capital light infrastructure, consisting mainly of software development related to the Doma Intelligence platform, which resulted in a \$10.7 million investment in software in the third quarter of 2021.

Finally, in terms of our plans for the rest of the year and beyond, we continue to see strong momentum in our business with Open Orders in Q3 growing 41% YoY - the fastest open order growth we've experienced all year. Our recent performance and momentum allow us the confidence to invest more aggressively in our product roll-out, particularly as it relates to the accelerated migration of our Local Purchase business to the Doma Intelligence platform, which we remain on track to start by year-end. We believe that the acceleration of these investments is worth any short-term trade off in margins that will likely be required to get to larger scale faster.

Now to recap the key takeaways we opened the call with:

1. Our accelerating growth in Q3 was driven by our machine intelligence technology
2. This out-performance is showing no signs of slowing down and
3. We are now focused on extending our proven technology to more of the market— particularly the Home Purchase market

So with those key points in mind, I'll conclude with outlook for the remainder of the year. Given our strong business momentum in Q3, we now expect to end the year at or above the high end of our previously communicated ranges for Retained Premium and Fees and Adjusted Gross Profit.

With that, we will now open up the call to questions. Operator?

Q & A

Nick Jones, Citi

Great, thanks for taking the questions. Just a couple. Can you talk about enterprise adoption? We know you've had some success getting kind of in the door, you know, where are you in terms of enterprise adoption, in terms of the volume of mortgages versus what's kind of running through DOMA? And then can you also remind us a little bit of how, you know, what does it take to drive adoption for local, you know, within local transactions? Thanks.

Max Simkoff, Chief Executive Officer, Doma

Great to hear your voice, Nick. This is Max speaking. Look, in terms of enterprise adoption, I'll speak in the aggregate and then maybe give a couple specifics. I think, simply put, enterprise channel as you know, is nearly all refinance. And given the significant growth and closed orders across the entire company, that specifically the growth in closed orders, as we referenced for the enterprise channel, I think it's safe to say that between net new customers we added in the quarter, who got implemented and rolled out and existing large enterprise relationships we have where we significantly expanded wallet share. The adoption was strong across the board.

And just as a reminder, the enterprise channel, of course, is where we also have fullest use of the DOMA intelligence platform. So all that volume goes through our industry leading technology, including all of our machine intelligence capabilities, and our Doma operating model in the local business, where you asked about purchase transactions. Just as a reminder, we communicated earlier this year that we expect to start processing purchase transactions through the Doma intelligence platform by the end of this year. We are on track to do that later this quarter. And as we use the Doma intelligence platform across more of the transactions, in our in our local markets division, we'd expect to see certainly more benefit and more adoption in that part of the business as well.

And the last thing I'll mention is, we mentioned earlier this year, that in aggregate, we were planning on having the majority of our direct order volume, inclusive of both enterprise and local going to the domain intelligence platform by the end of this year. And we are also on track to do that as well.

Nick Jones, Citi

Great, and maybe just a follow up on appraisal on Home Warranty. I mean, are you able to give any kind of timeline of how we should think about when that could potentially start contributing to the P&L even from an investment standpoint, or you know, when early kind of signs a revenue could show up? Thanks?

Max Simkoff, Chief Executive Officer, Doma

Sure, we do expect to continue investing in the home warranty appraisal areas. That was certainly one of the reasons for us going public and the intent to use proceeds to invest in those areas, as well as other market adjacencies and opportunities that may present themselves. We aren't going to provide any specific timelines yet, but I can confirm that we are actively building infrastructure to soon compete in those markets.

Nick Jones, Citi

Great thanks for taking the question.

Max Simkoff, Chief Executive Officer, Doma

Thank you.

Matt Carletti, JMP Securities

Maybe I'll start with a follow up on the kind of enterprise partnership channel and specifically around pipeline, could you help us understand kind of, you know, kind of what the status is of ongoing discussions for new partners that maybe aren't

announced yet? And then kind of, for the partners you do have already, help us understand, you know, like some of the more mature ones, and what sort of ballpark wallet share does DOMA have, and longer term, you know, what sort of wallet share you target or think that DOMA could achieve, you know, down the road?

Max Simkoff, Chief Executive Officer, Doma

Sure, without getting into too many specifics about any one customer individually, we feel like we've got a very strong pipeline with a number of mature sales cycles with top 25 mortgage originators. We continue to onboard new clients each month. And we've also added a number of key team members to our Doma enterprise sales team, which we think will not only help us execute on the new customer pipeline, but further unlock additional volume from some of those existing large strategic clients that you mentioned. On the topic of what a wallet share is, with existing enterprise clients, we don't announce specific wallet share numbers for key clients individually.

But I will say two things. One, is that when you look at our overall wallet share, or market share rather, I mean, just kind of for the book ends of end of last year, it was less than 1% of the entire market. Certainly, you know, we've been growing significantly this year. But we still have plenty of room to take share. And that includes from existing accounts. And I think what's probably most important is just to frame where we think we can end up in terms of wallet share with some of these large enterprise customers. We think that over time, it's entirely reasonable for us to command north of 50% wall share with strategic enterprise customers, we see the use of our solution is becoming more and more of a necessity for them driving differentiated outcomes in terms of a better faster and more affordable mortgage closing experience. And so we feel like it's entirely reasonable to be able to get more than 50% number in that channel.

Matt Carletti, JMP Securities

Okay, great. And then a follow up if I could on your comments and Noaman's, kind of accelerating some investment to capture share, you got momentum and so forth. And just want to understand, you know, the comment was made about, you know, investment to capture share. And basically, the tradeoff is maybe some margin in the near term, can you help us understand how that might differ? Not looking for guidance, but just ballpark wise or qualitatively versus kind of the original plan? And then lag time, kind of you as you make those investments? Kind of what do you view is kind of a you make an investment today? How much time before you see results from that?

Noaman Ahmad, Chief Financial Officer, Doma

Yeah, hey, Matt. Good to catch up again. So with respect to the comments around investments, look, we raised a significant amount of funds by virtue of going public, with the idea that we can invest those funds to grow faster growth, and for the acceleration of our product platform. And so we intend to do that. Now, we are in the process of building out a plan, as I mentioned, the last time we spoke, and we will be sharing that plan at our next call. But to provide you some qualitative guidance, again, we want to accelerate investments in customer acquisition, as you'd expect, we want to accelerate investments in our product and development, developing both our product as well as migrating the purchase volume onto our Doma intelligence platform.

So we intend to accelerate those investments. What that means is, in the short term, there are trade offs, because one, very simply, we do hire, you know, sometimes three to four to five months in advance of growth. And so there's a short term impact, but I think nothing in our long term plan changes. We're doing exactly what we had outlined, who'd be doing with the funds raised. And so I think the comments are just in line with that earlier, you know, commentary around, capturing greater share and what you'd have done previously.

Matt Carletti, JMP Securities

Great. Well, thank you for the answers. Congrats in a nice quarter and best of luck.

Noaman Ahmad, Chief Financial Officer, Doma

Thank you.

Jason Helfstein, Oppenheimer

Can you give us a sense of what kind of progress you've made either sequentially since the beginning of the year or even year over year with wallet share expansion among existing enterprise accounts, and then second, any risk that is in refinance flows, you're not able to offset it with purchase, and just kind of talk about that transition.

Max Simkoff, Chief Executive Officer, Doma

Sure, happy to, Jason, this is Max. So on the year over year, you know, sequential gains and wallet share. Without getting into again, specific client numbers, I would just say that it's safe to assume that in a quarter, where overall refinance volume across the industry contracted by north of 40%, we grew our enterprise channel, which is subsequently all refi by nearly 400%. That, you know, we've seen both significant new customer adds and significant expansions of wallet share consistently throughout the year, you know, kind of across the board. So, and I really think that that's, you know, kind of important in answering the second part of your question, which is, while we remain very confident, we will be able to move purchase volume to the platform and as demonstrated by the targeted investments we made in sales and marketing this past quarter to drive more purchase volume into the business in general, as Noaman mentioned earlier, you know, we saw 9% growth in purchase transactions at a time when even the purchase market contracted year over year. We also still are quite confident that with our differentiated solution, we can continue significantly outperforming the market and taking share in the refinance side, despite the fact that you know, the mortgage, the refinance market is expected to contract. And if you remember, this is all really factored into our original plan and projections. We use the backdrop of the Mortgage Bankers Association, forecast for what they thought would happen with the refinance market, which I think at the time that we communicated our original plan earlier this year, they were certainly expecting refinance volume to, I think, to start contracting sooner than it actually did, and then happen to a significant degree where 75% of refinance volume fell away inside of, I think, the next 24 to 36 months. So all of that was already factored into the plan. And I think as you've seen in the last quarter, we're demonstrating that we can significantly outperform the market, regardless of what the macro backdrop is.

Jason Helfstein, Oppenheimer

Thank you.

Max Simkoff, Chief Executive Officer, Doma

Thank you.

Tom White, D.A. Davidson

Thanks, guys, for taking my question. Nice quarter. I guess I wanted to just circle back on the comments around or in the press release that accelerated kind of investing in an accelerated migration of Doma Intelligence to local, I guess, what does that mean exactly? That's just sort of like putting kind of more heads and engineers on the on the project. And, you know, it sounds like you're saying you're still on track for kind of rolling it out the same time you've been talking about. So if you are putting kind of more investment towards it doesn't mean that the rollout may kind of happen faster over the over the course of next year. And I'm curious how that might impact, you know, the financial model if that's correct. And then I have one quick follow up.

Noaman Ahmad, Chief Financial Officer, Doma

Yeah. Hey, Tom, this is Noaman. So what I would again say is we will share specifics of our plan again, next quarter. But here's what I can share right now. When we say accelerate investments, especially around purchase, it is accelerating, you know, the transfer of purchase volume onto Doma Intelligence. And that requires, you know, significant upfront sort of costs, again, longer term, it's a wash, and again, consistent with our plan. So there's a trade off in the short term, because of that acceleration. And that acceleration, again, goes to, you know, our thesis around going public, which was to drive significantly higher growth than what we had outlined in our original plan. So we're looking forward to deploying the capital in that area. On top of that, I think that you know, as we think about market adjacencies, and not just home warranty and

appraisal, you know, and we think about what else we can build out in terms of product, we intend to use our funds to invest in that, specifically next year. So again, we will share more specifics at the next call, but the those are sort of the broad strokes around that investment.

Tom White, D.A. Davidson

Okay, great, and just one follow up. You guys launched a couple of interesting innovations it sounds like with Doma Docs and Connect, can you maybe update us on how you're thinking about your, you know, kind of the legacy competitors in this space in their ability to respond? Kind of technology wise, like, I don't know, if you think about it, like in terms of how far ahead you are or anything like that, but any color that would be helpful.

Max Simkoff, Chief Executive Officer, Doma

Sure, and great to hear your voice, Tom. This is Max. So, I think, you know, our unique patented technology or differentiated approach have demonstrated that really no other company has brought things like property based predictive underwriting to this industry in a way that we have. You know, we've seen some, we've seen some noise about quick or automated title, technology that, you know, some of the other players in the space have attempted, but really none of them offer the coverage or instant underwriting capabilities that we offer with our Doma title product.

And then with respect to the broader machine intelligence technologies that we've applied to process growing, closing, which include, as you mentioned, Doma Connect, and Doma Docs, we just, we feel like we're pretty far out front of the space here. We don't know of any title companies that are using technology similar to ours. And even, you know, kind of more generalized experts in machine intelligence, like Google, offer solutions that, you know, are kind of generally focused and don't perform as well as are very specific capabilities focused on the mortgage process.

And so, you know, we really believe that our differentiation here arises from the wealth of over 20 years of data that we possess, the really, really strong team that we've built, you know, I mean, really a world class group of PhDs and machine learning experts, who bring diverse backgrounds to solving problems and represent a unique competitive advantage and we haven't seen anything close to it across any of the competitive landscape.

Tom White, D.A. Davidson

Great, thanks so much for the color. Appreciate it.

Max Simkoff, Chief Executive Officer, Doma

Absolutely.