Porch Group



# Q4 2023 Earnings Presentation

March 7, 2024

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# Presenters

**Matt Ehrlichman**
CEO, Chairman & Founder



**Shawn Tabak**
Chief Financial Officer



**Matthew Neagle**
Chief Operating Officer



**Jim Weld**
GM, Rynoh



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# Disclaimer

**Forward-Looking Statements**

This presentation contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These statements are based on the beliefs and assumptions of management. Although we, Porch Group, Inc., believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Generally, statements that are not historical facts, including statements concerning our possible or assumed future actions, business strategies, events or results of operations, are forward-looking statements. These statements may be preceded by, followed by, or include the words "believes," "estimates," "expects," "projects," "forecasts," "may," "will," "should," "seeks," "plans," "scheduled," "anticipates" or "intends" or similar expressions.

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You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in the Company's Annual Report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors, including those described in Item 1A, "Risk Factors," and elsewhere in the Company's Annual Report. We disclaim any obligation to update publicly any forward-looking statements, whether in response to new information, future events, or otherwise, except as required by applicable law.

**Non-GAAP Financial Measures**

The financial information included in this presentation is preliminary, unaudited and subject to revision upon completion of the Company's closing and audit processes. This release includes non-GAAP financial measures, such as Adjusted EBITDA (Loss), Adjusted EBITDA (Loss) as a percent of revenue and Free Cash Flow.

Porch Group defines Adjusted EBITDA (Loss) as net income (loss) adjusted for interest expense; income taxes; depreciation and amortization; gain or loss on extinguishment of debt; other expense (income), net; impairments of intangible assets and goodwill; provision for doubtful accounts related to reinsurance, or related recoveries; impairments of property, equipment, and software; stock-based compensation expense; mark-to-market gains or losses recognized on changes in the value of contingent consideration arrangements, earnouts, warrants, and derivatives; restructuring costs; acquisition and other transaction costs; and non-cash bonus expense. Adjusted EBITDA (Loss) as a percent of revenue is defined as Adjusted EBITDA (Loss) divided by total revenue. Porch Group defines Free Cash Flow as Operating Cash Flow adjusted for the purchase of property, plant and equipment and capitalized software.

Porch Group management uses these non-GAAP financial measures as supplemental measures of the Company's operating and financial performance, for internal budgeting and forecasting purposes, to evaluate financial and strategic planning matters, and to establish certain performance goals for incentive programs. Porch Group believes that the use of these non-GAAP financial measures provides investors with useful information to evaluate the Company's operating and financial performance and trends and in comparing Porch Group's financial results with competitors, other similar companies and companies across different industries, many of which present similar non-GAAP financial measures to investors. However, Porch Group's definitions and methodology in calculating these non-GAAP measures may not be comparable to those used by other companies. In addition, the Company may modify the presentation of these non-GAAP financial measures in the future, and any such modification may be material.

You should not consider these non-GAAP financial measures in isolation, as a substitute to or superior to financial performance measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude specified income and expenses, some of which may be significant or material, that are required by GAAP to be recorded in Porch Group's consolidated financial statements. The Company may also incur future income or expenses similar to those excluded from these non-GAAP financial measures, and the Company's presentation of these measures should not be construed as an inference that future results will be unaffected by unusual or non-recurring items. In addition, these non-GAAP financial measures reflect the exercise of management judgment about which income and expense are included or excluded in determining these non-GAAP financial measures.

You should review the tables accompanying this release for reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measure. The Company is not providing reconciliations of non-GAAP financial measures for future periods to the most directly comparable measures prepared in accordance with GAAP. The Company is unable to provide these reconciliations without unreasonable effort because certain information necessary to calculate such measures on a GAAP basis is unavailable or dependent on the timing of future events outside of its control.

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# Agenda

1. Q4’23 Update
2. Results & Guidance
3. KPIs
4. Recap: Warranty
5. Deep Dive: Rynoh
6. Strategy & Outlook
7. Q&A

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# Q4’23 Update

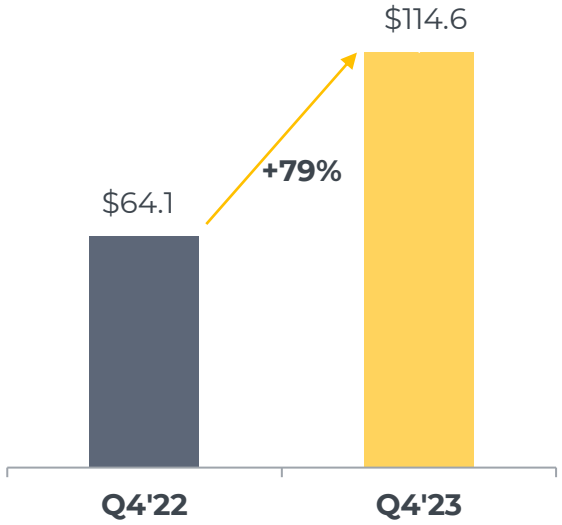
## Matt Ehrlichman

CEO, Chairman & Founder

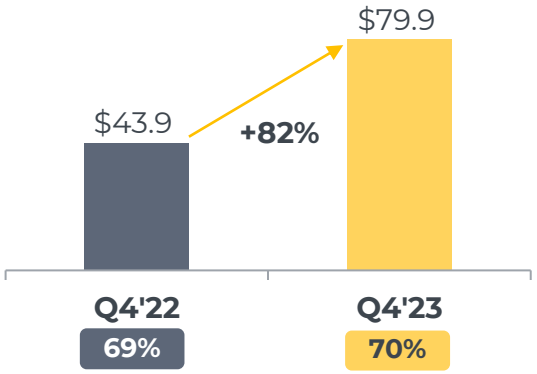
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# Q4 2023 Financials: Delivered $12M Adjusted EBITDA

## Total Revenue ($m)

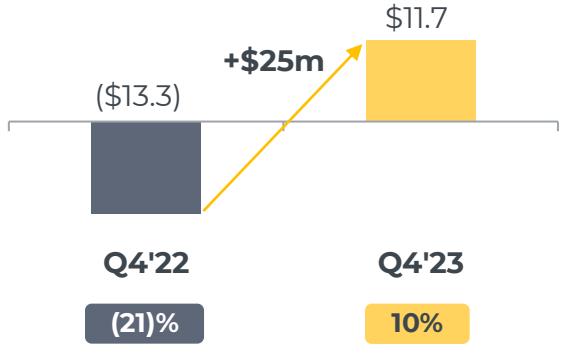



## Revenue Less Cost of Revenue ($m)




Revenue less Cost of Revenue Margin

## Adjusted EBITDA (loss)[1] ($m)




Adjusted EBITDA margin

(1) See Q4 2023 earnings release for a reconciliation of Adjusted EBITDA (loss) to the most directly comparable GAAP financial measure.

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# Q4 2023 Key Updates

- ~2 years ago set H2'23 Adj EBITDA profitability target: **Achieved $21 million**
- No material weaknesses
- Important product updates:
  - Launched new title product: RynohVerifi
  - Landed new utilities partnership: now 12, covering 14m households
  - Launched new HVAC micro-warranty
  - Released inspector CRM product designed for smaller inspectors
  - Moving executing Local Full-Service, higher margin and larger TAM
- Released first ESG report
- Admitted into Deloitte's Technology Fast 500 2023

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# Results & Guidance



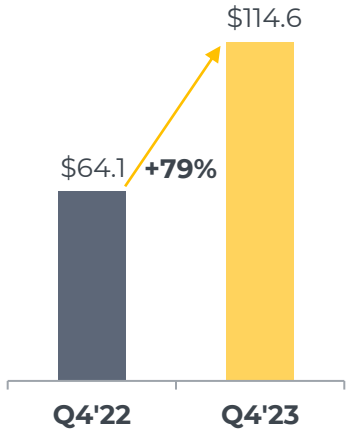
**Shawn Tabak**

Chief Financial Officer

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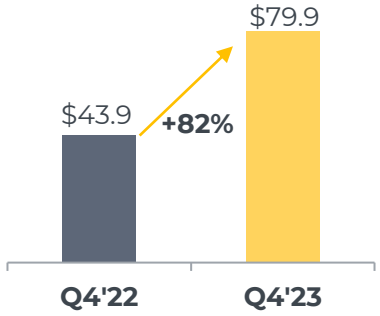
# Financial Highlights[1] – Q4 2023

## Total Revenue ($m)




- +79% Revenue growth
- +179% Insurance segment Revenue growth

## Revenue less Cost of Revenue ($m)

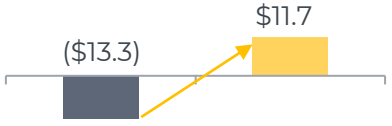



69% 70%

Revenue less Cost of Revenue Margin

- 70% Revenue less Cost of Revenue Margin
- +120bps driven by profitability actions in the Insurance segment and price increases in Vertical Software

## Adj EBITDA (loss) ($m)

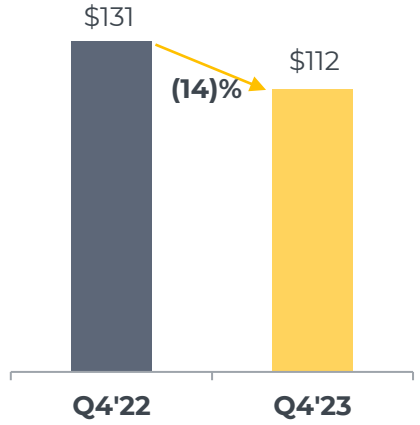



(21)% 10%

Adjusted EBITDA margin

- 10% Adjusted EBITDA margin
- $25m increase in Adj EBITDA over prior year
- Driven by Insurance segment and strong cost control

## Gross Written Premium ($m)



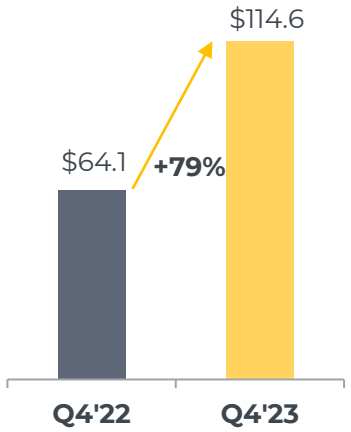

- Managing premium through non-renewal of higher risk policies and new business restrictions in higher risk zip codes
- 34% increase in premium per policy

(1) See Q4 2023 earnings release for a reconciliation of Adjusted EBITDA (loss) to the most directly comparable GAAP financial measures.

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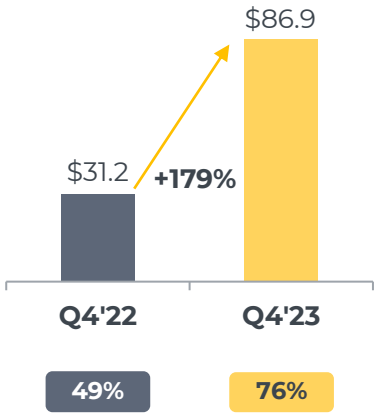
# Revenue by Segment – Q4 2023

## **Total Revenue** ($m)




- Insurance Segment was 76% of total revenue

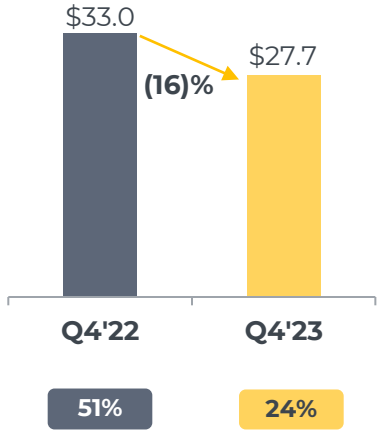
## **Insurance Segment** ($m)




% Total Revenue

- Revenue +179% with premium per policy +34% increase and lower ceding compared to the prior year

## **Vertical Software Segment** ($m)




% Total Revenue

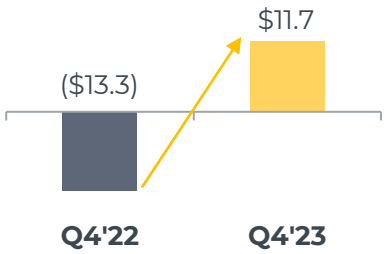
- Pressure on moving transaction revenue continued in Q4
- SaaS revenue remained resilient

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# Adjusted EBITDA[1] by Segment – Q4 2023

## Total Adjusted EBITDA (loss) ($m)

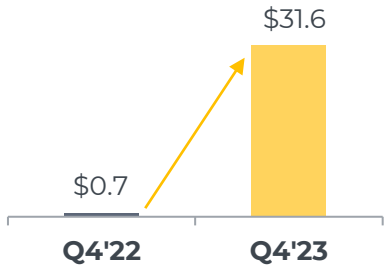



| (21)% | 10% |
|---|---|

Adjusted EBITDA margin

- 10% Adj EBITDA margin
- $25m increase in Adj EBITDA compared to Q4'22

## Insurance Segment ($m)

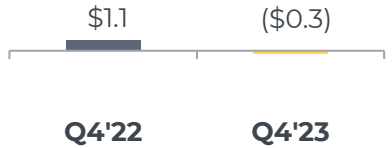



| 2% | 36% |
|---|---|

Adjusted EBITDA margin

- 36% Adjusted EBITDA margin
- Insurance profitability actions include: increased premium per policy, underwriting actions (ie higher deductibles), and non-renewals of higher risk policies

## Vertical Software Segment ($m)

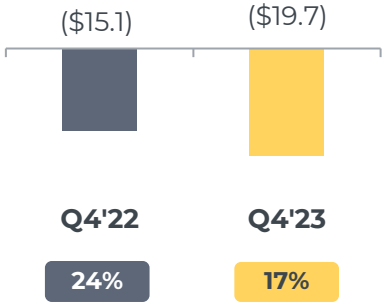



| 3% | (1)% |
|---|---|

Adjusted EBITDA margin

- Adjusted EBITDA impacted by continued market pressure in moving services

## Corporate Expenses ($m)




| 24% | 17% |
|---|---|

Corporate expenses as % of total revenue

- 600bps decrease in expenses as a percent of revenue

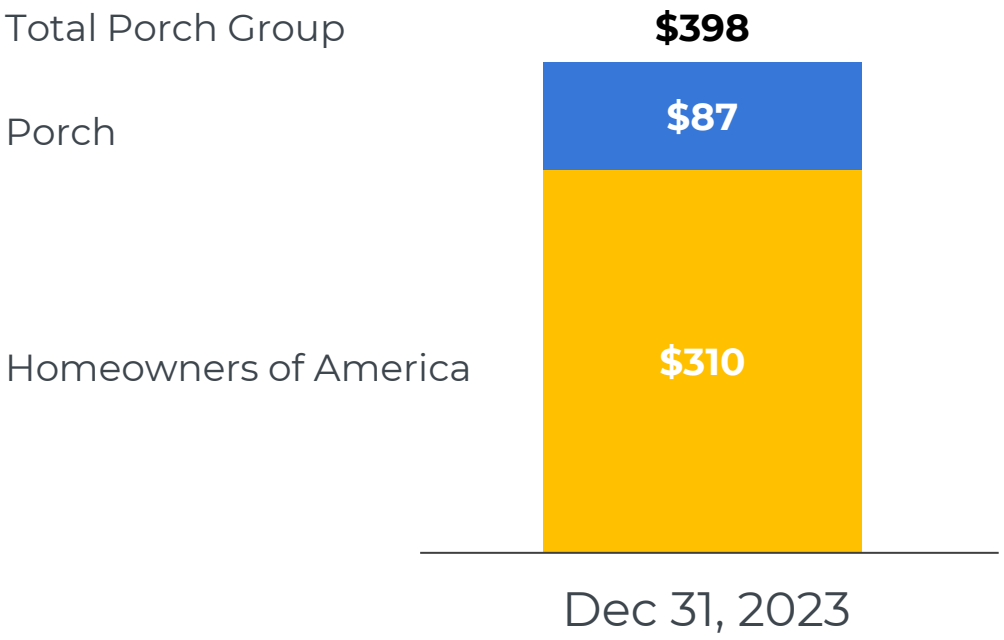
(1) See Q4 2023 earnings release for a reconciliation of Adjusted EBITDA (loss) to the most directly comparable GAAP financial measure.

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# Balance Sheet as of December 31, 2023

## **Cash, cash equivalents and investments** ($m)




**+$34m**
FY'23 Operating Cash Flow

**+$43m**
H2'23 Operating Cash Flow

- $398 million cash, cash equivalents and investments as of December 31, 2023
- Operating cash inflow was $34 million in FY 2023
- HOA surplus of $52 million

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# Q1 2024 Items to Note

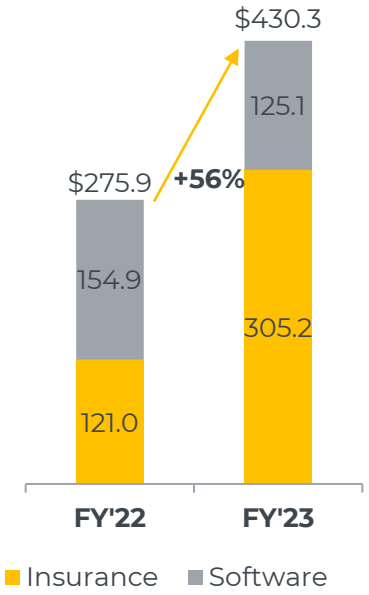
1. $25 million in Jan ‘24 with signing of strategic agreement with Aon
2. Sold EIG for $12 million; increases profitability
3. $8 million par 2026 unsecured notes repurchased for $3 million cash
4. Filing shelf registration shortly (no imminent plans to raise capital)

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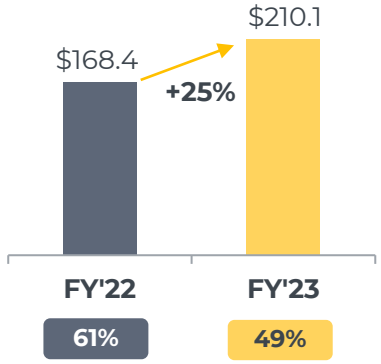
# Financial Highlights[1] – FY 2023

## Total Revenue ($m)




- +56% Revenue growth
- +152% Insurance segment growth, with increases in premium per policy and lower ceding

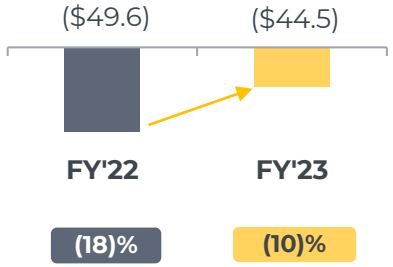
## Revenue less Cost of Revenue ($m)




Revenue less Cost of Revenue Margin

- Margin impacted by mix shift, and change in reinsurance programs within insurance

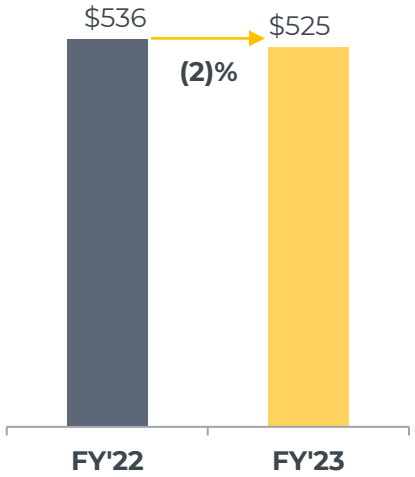
## Adj EBITDA (loss) ($m)




Adjusted EBITDA margin

- $5m improvement compared to prior year
- +8pp improvement in Adjusted EBITDA margin

## Gross Written Premium ($m)




- Increase in premium per policy offsets non-renewals in line with risk appetite

(1) See Q4 2023 earnings release for a reconciliation of Adjusted EBITDA (loss) to the most directly comparable GAAP financial measures.

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# 2024 Guidance

**$450m-$490m**
**Revenue**

- 2024 Revenue growth of 5% to 14%

**$225m-$240m**
**Revenue less Cost of Revenue**

- Assumes 63% GLR in line with 5-year weighted average

**$1m-$10m**
**Adj EBITDA**

- Expect to be profitable on a full year basis

**$460m-$480m**
**Gross Written Premium[1]**

- Managing GWP approximately flat[1]

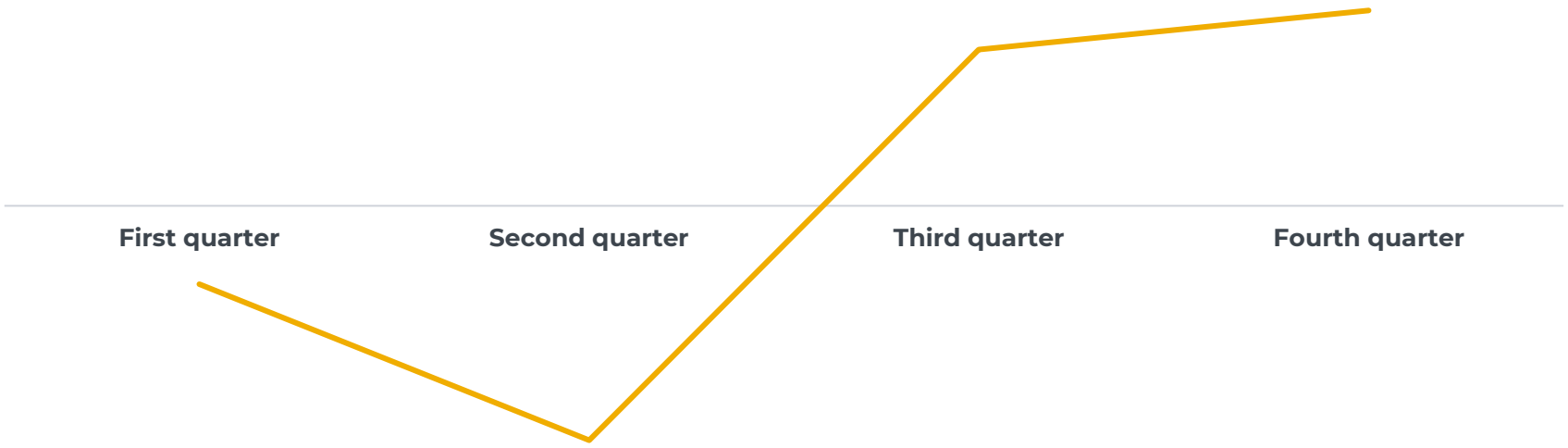
1) Excludes ~$45 million gross written premiums with third party carriers related to Elite Insurance Group, which was sold on January 31, 2024.
*Note, guidance does not assume impact for launch of reciprocal exchange. Guidance will be provided once approval received.*
See Porch's earnings press release for a reconciliation of Adjusted EBITDA to its most directly comparable GAAP financial measures. Porch is not providing reconciliations of forward-looking non-GAAP guidance to the comparable GAAP measures because certain information necessary to calculate such measures on a GAAP basis is unavailable or dependent on the timing of future events outside of Porch's control. In particular, the charges excluded from these non-GAAP measures are subject to high variability and complexity due to Porch's ongoing growth.

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# Seasonal Adjusted EBITDA Trend

## Illustrative Seasonal Adj EBITDA Trend:




- Expect Adj EBITDA to be positive on a full year basis in 2024 and ongoing
- Historic trend sees higher claims in Q1 and Q2, therefore expect Adj EBITDA loss in H1 and profitability in H2
- For 2024, purchased $30m aggregate severe convective storm (including hail) coverage to lower risk

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# KPIs



## Matthew Neagle

Chief Operating Officer

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# KPIs – Q4 2023

**30k**
Avg Number of Companies

- Broadly similar to Q3'23 and Q4'22 with continued housing market headwinds

**$1,277**
Avg Revenue per Company per Month

- +84% from Q4'22 as we monetize the insurance opportunity more effectively

**220k**
Monetized Services

- Increase of 3% vs Q4'22 with the industry-wide decline in home sales and corporate relocation in moving offset by insurance growth

**$448**
Avg Revenue Per Monetized Service

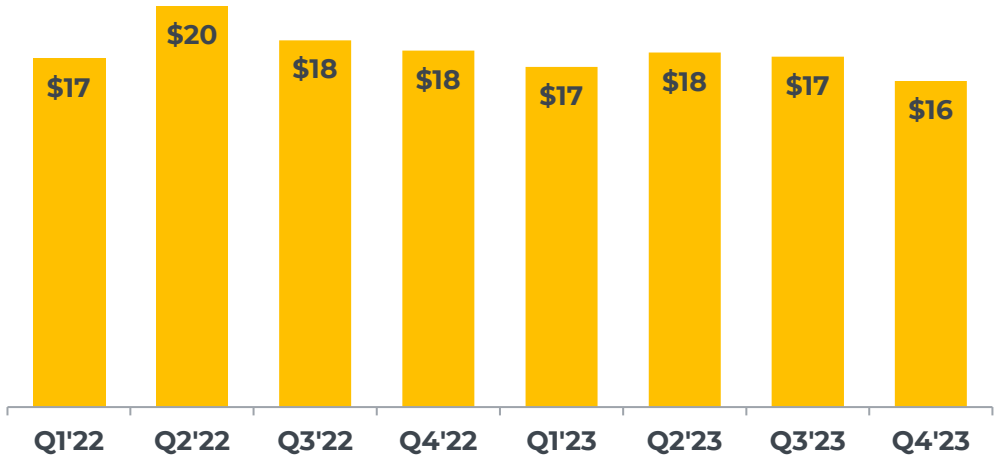
- An increase of +105% vs Q4'22 driven by growth in higher value services such as insurance and warranty

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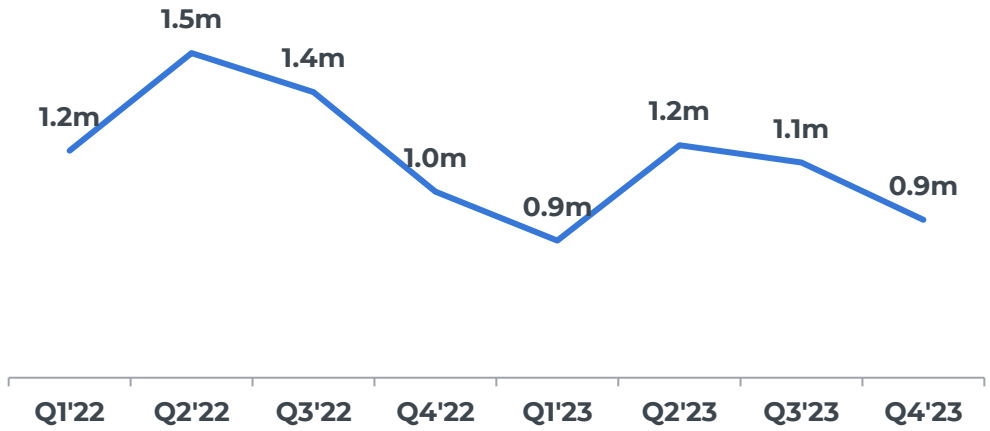
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# Resilient SaaS Revenues

## Software and Service Revenue[1] ($m)




## Industry Home Sales Volumes[2]




- Industry home sales declined year-over-year: 18% in 2022 and 19% in 2023
- Software and service subscription revenue remained resilient throughout

(1) Software and service subscription revenue is a subset of Vertical Software revenue which excludes move and post-move transaction related revenue. Further information on the breakdown of Vertical Software revenue will be available in our 10k once filed.
(2) Source: National Association of Realtors existing home sales data.

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# Insurance Segment KPIs: Q4 2023

## Insurance Segment KPIs:

**$112m**
Gross Written Premium
*Q4'22: $131m*

**310k**
Policies in Force
*Q4'22: 389k*

**$1,120**
Annualized Revenue Per Policy
*Q4'22: $347*

## Insurance Carrier (HOA) KPIs:

**$1,861**
Annualized Premium Per Policy
*Q4'22: $1,391*

**96%**
Premium Retention[1]
*Q4'22: 107%*

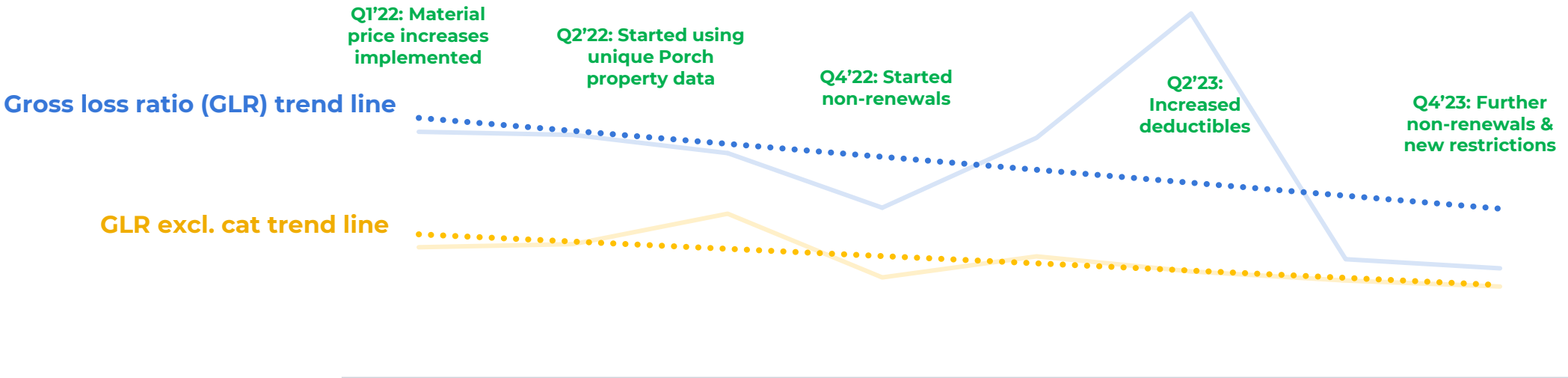
**36%**
Gross Loss Ratio
*Q4'22: 56%*

(1) Premium retention was 96%, approximately 10 percentage points lower than the prior year driven by non-renewals.

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# Insurance Profitability Actions Drive GLR Improvement



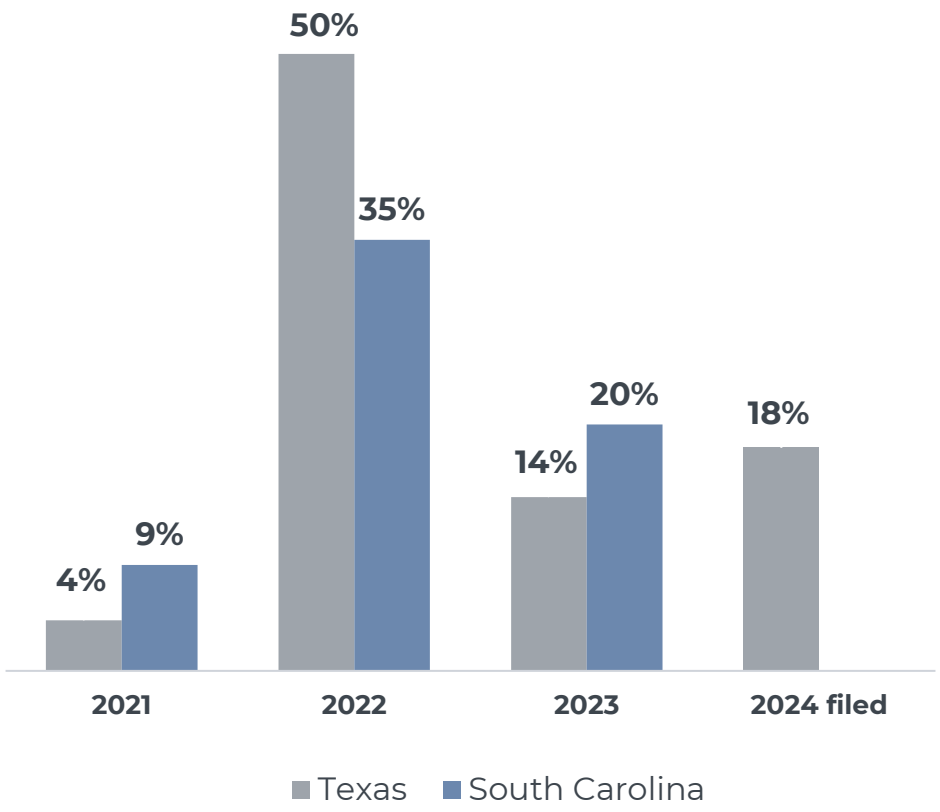

| | Q1'22 | Q2'22 | Q3'22 | Q4'22 | Q1'23 | Q2'23 | Q3'23 | Q4'23 | FY 2022 | FY 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Combined Ratio | 113% | 103% | 93% | 77% | 107% | 180% | 58% | 49% | 97% | 88% |
| Gross Loss Ratio | 81% | 80% | 74% | 56% | 79% | 120% | 39% | 36% | 71% | 69% |
| GLR excl. cat | 43% | 44% | 54% | 32% | 40% | 35% | 32% | 30% | 43% | 34% |

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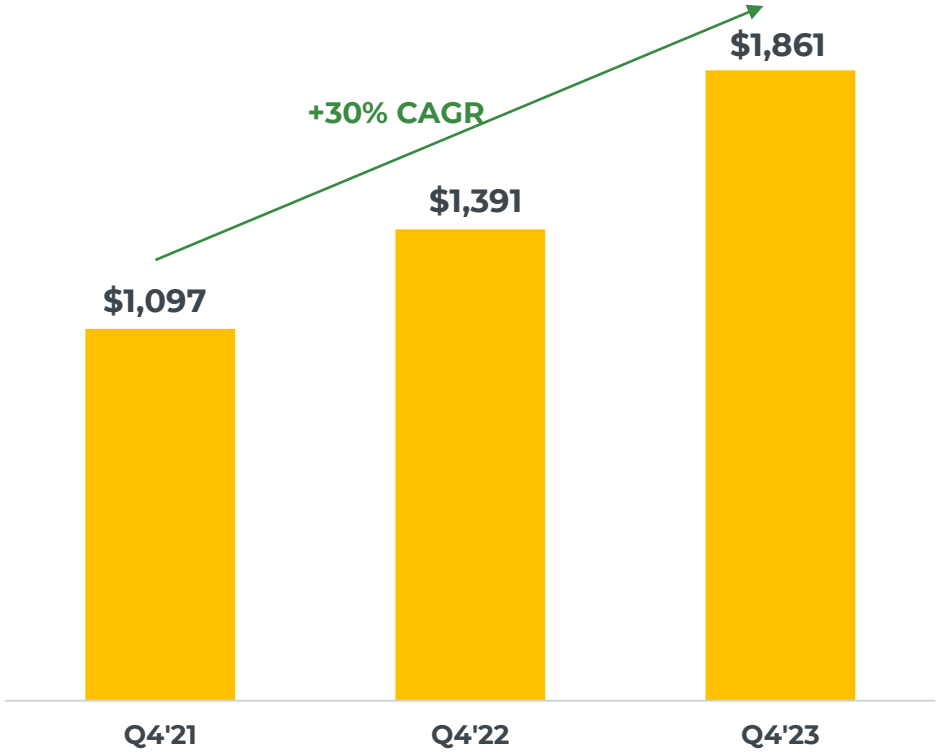
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# Ongoing Rate Increases

## Rate Increases[1] in HOA's Largest States:




## HOA Premium Per Policy:




(1) Rate increases relating to homeowners insurance only, other rate increases have been implemented for dwelling and fire insurance policies.

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# Recap: Warranty



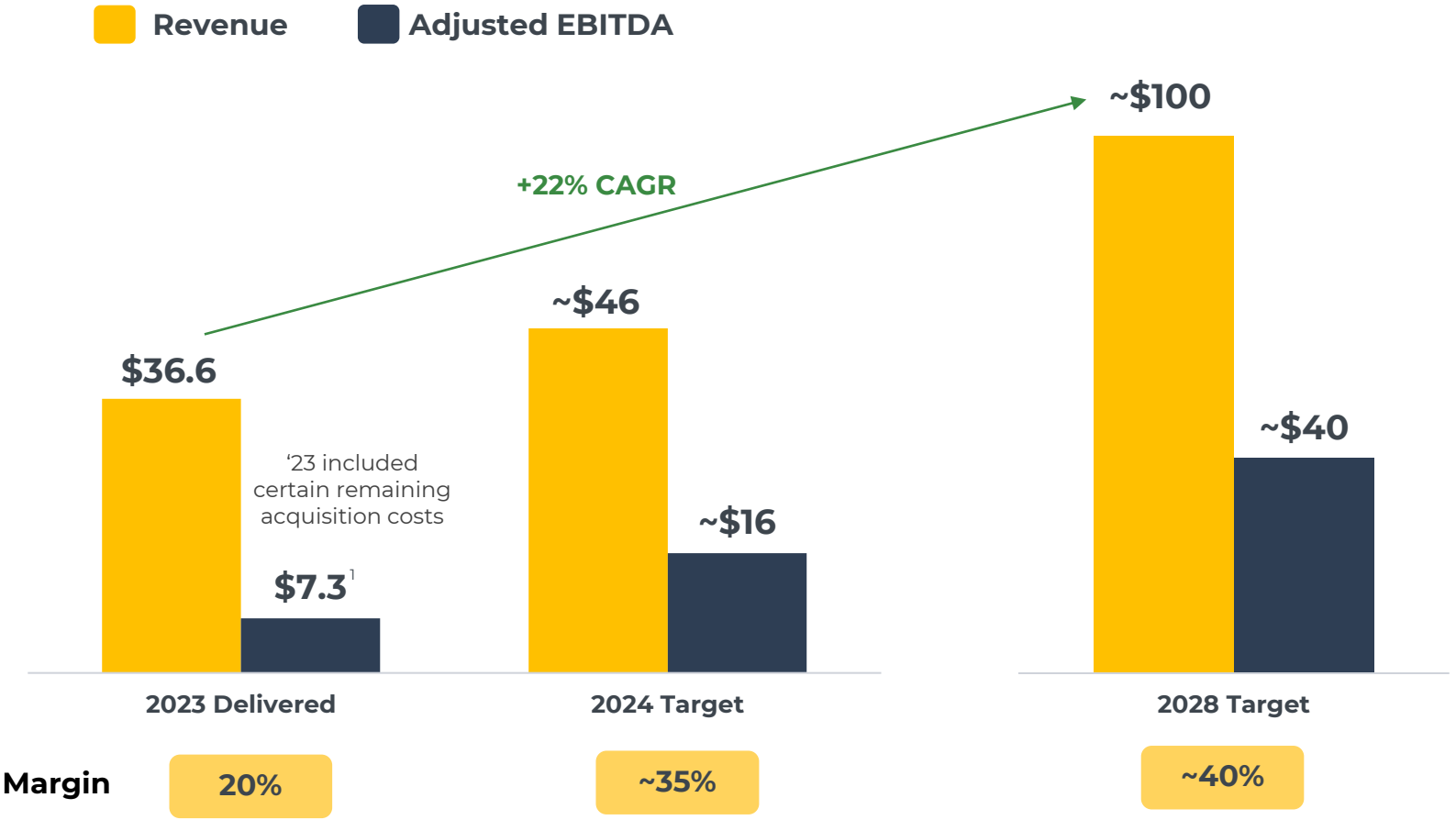
**Matthew Neagle**

Chief Operating Officer

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# Follow-up to Q2'23 Deep Dive: Warranty Business

## Revenue Expected to Double in Mid-Term with Increased Volumes Through Multiple Channels




(1) 2023 net income of $8.7m, adjusted for interest expense $0.9m, income tax expense $0.3m, depreciation and amortization $1.7m, revaluation of contingent consideration $(4.1)m, non-cash stock based compensation $(0.3)m, and other adjustments of $(0.0)m, reconciles to $7.3m Adjusted EBITDA for Warranty, a subset of the Insurance segment. Porch is not providing reconciliations of forward-looking non-GAAP guidance to the comparable GAAP measures because certain information necessary to calculate such measures on a GAAP basis is unavailable or dependent on the timing of future events outside of Porch's control. In particular, the charges excluded from these non-GAAP measures are subject to high variability and complexity due to Porch's ongoing growth.

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# Deep Dive: Rynoh



**Jim Weld**

GM, Rynoh

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# Rynoh: Industry Leading Title & Escrow Software Provider

## Real Estate Transactions Protected By Rynoh[1]:

**~24m**
Transactions protected

**~$8tn**
Funds protected

### Agent's Transaction Software

### Rynoh Software

### Title Agent's Bank












(1) Since Rynoh was founded in 2007.

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# Transformation to a Valuable SaaS Platform for Title Agents

## Streamline In One Easy-To-Use Platform



### RynohLive

Financial management and fraud prevention for escrow account management



### RynohEscheat

State compliance and quick communication of unclaimed funds



### RynohOpEx

Accounting integration and software security



### New: RynohVerifi

Helps protect against fraudulent payment schemes

## Top Tier SaaS 2023 Metrics

**93%** Client Retention[1]

**85** Net Promoter Score

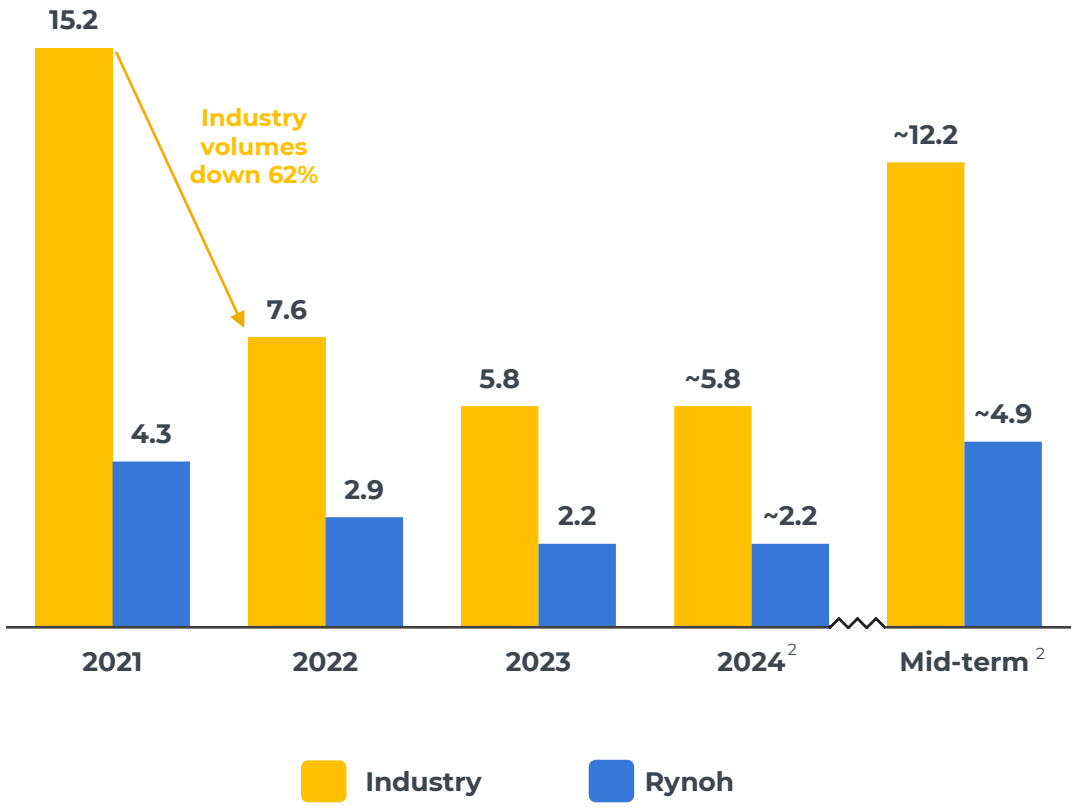
**10.6x** LTV / CAC

(1) Defined as 2022 clients retained in 2023, over total clients 2022.

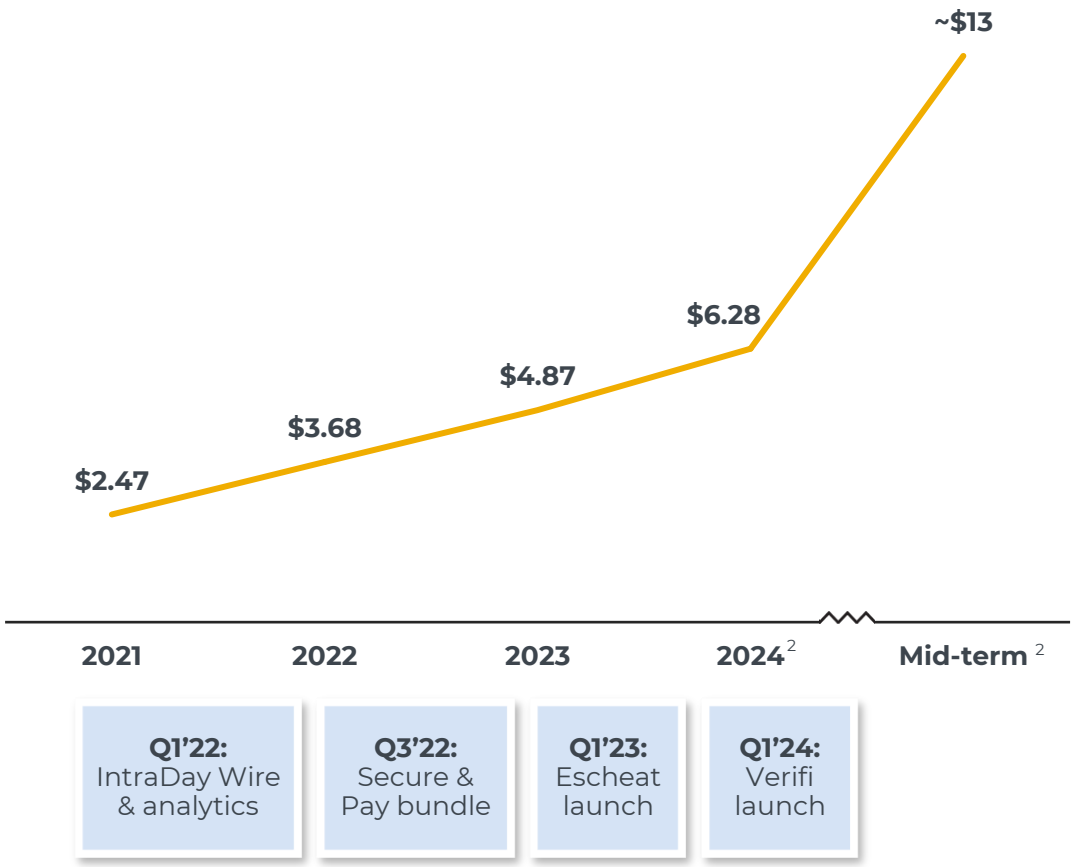
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# Rynoh Focused On Profitability Despite Market Decline

## Industry[1] and Rynoh Transaction Volumes




## Rynoh Price Per Transaction

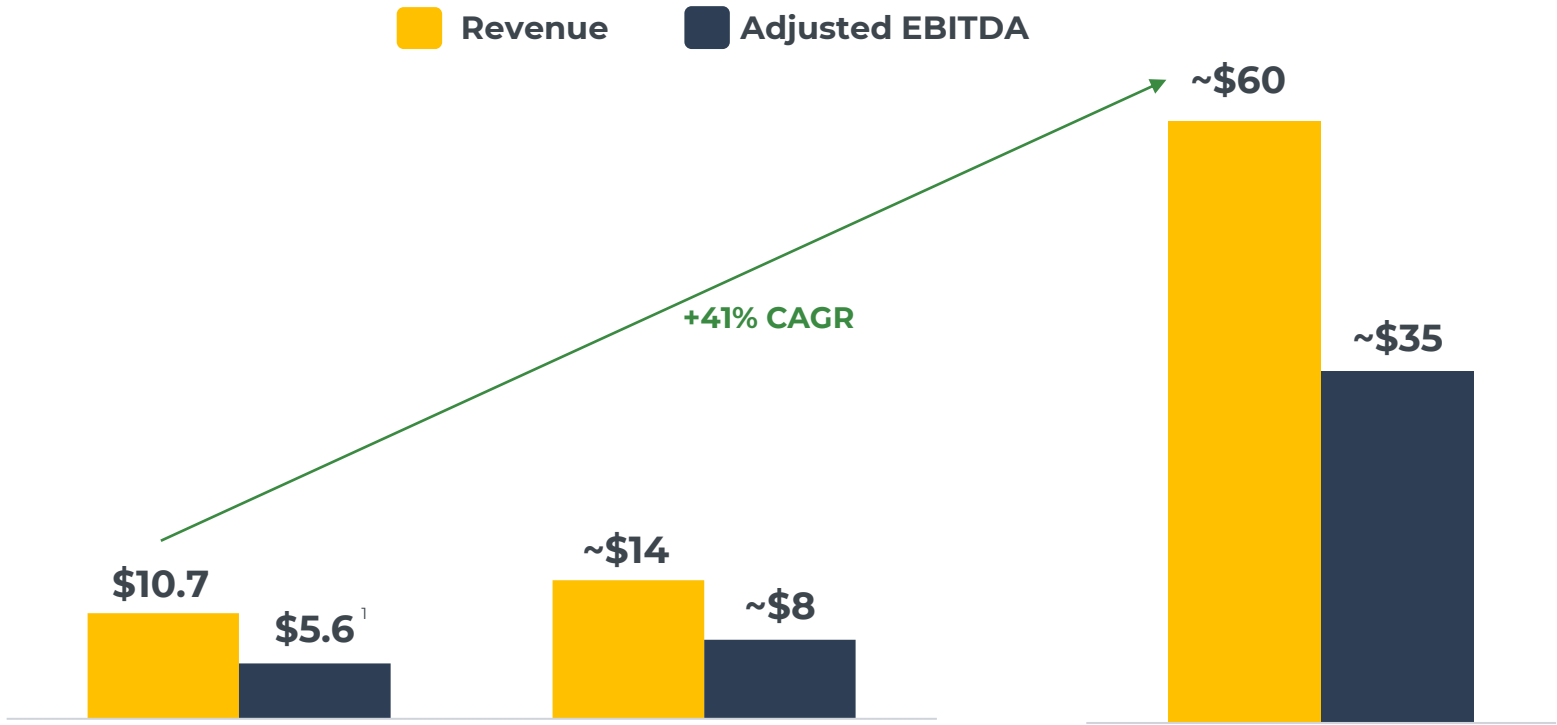



(1) Industry volumes includes new and existing home sales and refinancing volumes.
(2) These are assumptions based on current information available.

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# Profitability Driven By Returning Volumes & Price Increases

## Profitability Expected To Expand ~6x By 2028




| Adjusted EBITDA Margin | 52% | ~60% | ~60% |
|---|---|---|---|

(1) 2023 net income of $3.0m, adjusted for interest expense $0.0m, income tax expense $0.7m, depreciation and amortization $1.7m and non-cash stock based compensation $0.1m, reconciles to $5.6m Adjusted EBITDA for Rynoh, a subset of the Vertical Software segment. Porch is not providing reconciliations of forward-looking non-GAAP guidance to the comparable GAAP measures because certain information necessary to calculate such measures on a GAAP basis is unavailable or dependent on the timing of future events outside of Porch's control. In particular, the charges excluded from these non-GAAP measures are subject to high variability and complexity due to Porch's ongoing growth.

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# Strategy & Outlook



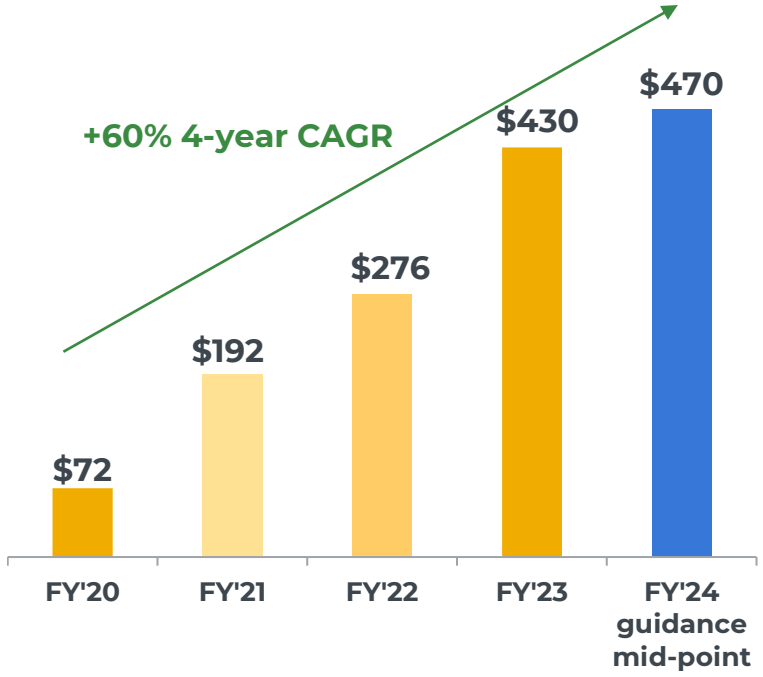
**Matt Ehrlichman**

CEO, Chairman & Founder

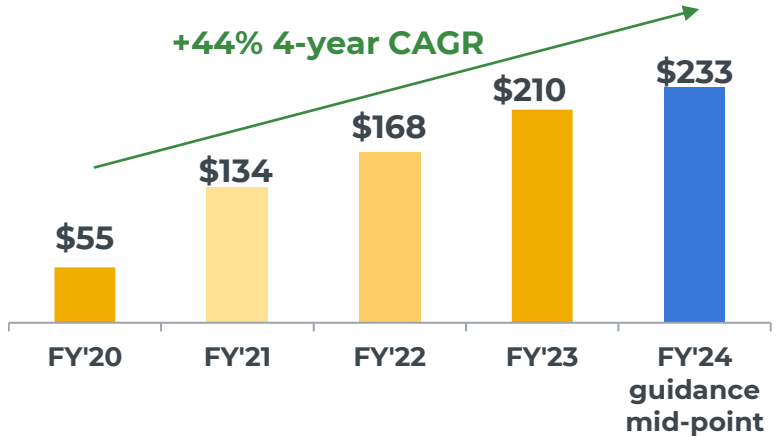
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# Strong Progress Since Listing: 60% CAGR, profitability

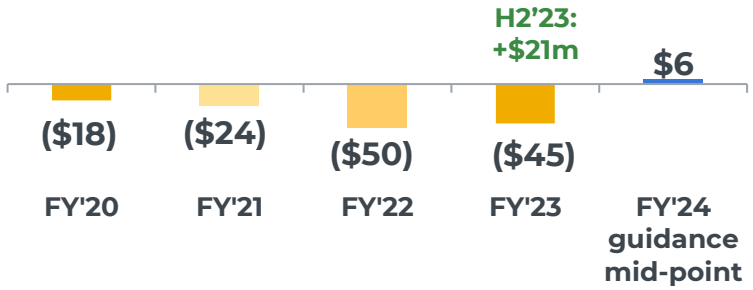
## **Total Revenue** ($m)




## **Revenue less Cost of Revenue** ($m)




## **Adj EBITDA (loss)** ($m)




See Porch's earnings press release for a reconciliation of Adjusted EBITDA to its most directly comparable GAAP financial measures. Porch is not providing reconciliations of forward-looking non-GAAP guidance to the comparable GAAP measures because certain information necessary to calculate such measures on a GAAP basis is unavailable or dependent on the timing of future events outside of Porch's control. In particular, the charges excluded from these non-GAAP measures are subject to high variability and complexity due to Porch's ongoing growth.

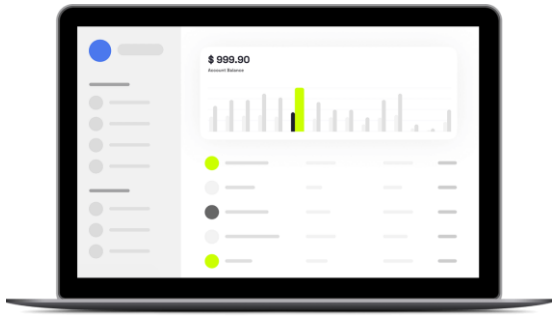
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# Porch: A New Kind of Homeowners Insurance Company

## Vertical Software

Leading SaaS products for inspection, mortgage and title companies




## How We'll Win

Homeowners insurance differentiators

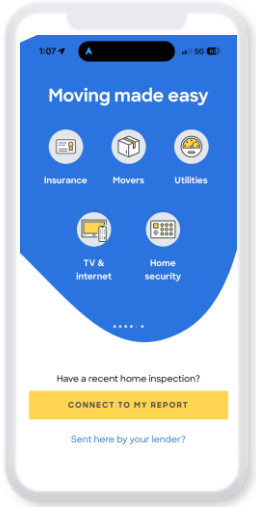
- Advantaged underwriting
- Best for homebuyers
- Whole home protection

**Early homebuyer access & unique data**

**Enhanced value proposition**

## Home Services

Insurance, warranty and moving services




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# Q&A



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# Appendix



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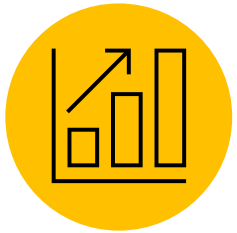
# Porch Value Proposition

- **Values driven** culture with high employee engagement
- **Market leader** in home related SaaS, with innovative approach
- **Recurring SaaS revenues** from ~30k strong relationships with home service companies
- **Significant TAM opportunity** in homeowners insurance market
- **Unique data and CAC opportunity** driven by strategic advantages
- **Future market tailwinds** in home transaction and reinsurance markets
- **Focus on profitability** with strong margin and growth opportunities

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# Strategic Pillars



**Execute Insurance Strategy (including launching Reciprocal Exchange)**



**Grow SaaS Businesses and Aggregate More Unique Data**



**Organizational Efficiency and Cost Control**

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# Our Highest Priority ESG Areas

### Diversity, Equity, & Inclusion



Recruiting diverse talent, providing equitable outcomes and opportunities for our employees, and ensuring inclusive experiences for our customers.

### Risk Management & Climate



Mitigating the key risks and uncertainties that can affect the long-term sustainability of our business and erode value over time.

**Informed by our materiality assessment and current state of our business, we identified our highest priority ESG areas**

### Employee Experience



Investing in our people and enriching employee wellbeing, growth, and overall experience at Porch.

### Cybersecurity & Data Governance



Maintaining policies and practices to defend against cyberattacks to ensure business continuity, and protect the data and security of customers.

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# Operating Cash Flow

| Reconciliation to Adj EBITDA | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | FY 2023 | FY 2022 |
|---|---|---|---|---|---|---|
| **Operating Cash Flow** | **$(22)m** | **$13m** | **$84m** | **$(41)m** | **$34m** | **$(18)m** |
| Working capital | $(1)m | $(57)m | $(75)m | $43m | $(89)m | $(38)m |
| Cash interest expense | $1m | $-m | $-m | $10m | $11m | $6m |
| **Adjusted EBITDA** | **$(22)m** | **$(43)m** | **$9m** | **$12m** | **$(45)m** | **$(50)m** |

| Reconciliation to Free Cash Flow | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | FY 2023 | FY 2022 |
|---|---|---|---|---|---|---|
| **Operating Cash Flow** | **$(22)m** | **$13m** | **$84m** | **$(41)m** | **$34m** | **$(18)m** |
| Purchase of property, plant & equipment | $-m | $-m | $-m | $-m | $(1)m | $(2)m |
| Capitalized software costs | $(2)m | $(2)m | $(2)m | $(2)m | $(9)m | $(8)m |
| **Free Cash Flow** | **$(25)m** | **$11m** | **$81m** | **$(43)m** | **$24m** | **$(28)m** |

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# Glossary

| Term | Definition |
|---|---|
| Annualized Premium Per Policy | We define Annualized Premium Per Policy as the total direct earned premium for Homeowners of America (“HOA”) , our insurance carrier, divided by the number of active insurance policies at the end of the period, multiplied by four. |
| Annualized Revenue Per Policy | We define Annualized Revenue per Policy as quarterly revenue for the Insurance segment, divided by the number of Policies in Force in the Insurance segment, multiplied by four. |
| Average Companies in Quarter | We define Average Companies in Quarter as the straight-line average of the number of companies as of the end of period compared with the beginning of period across all of our home services verticals that (i) generate recurring revenue and (ii) generated revenue in the quarter. For new acquisitions, the number of companies is determined in the initial quarter based on the percentage of the quarter the acquired business is a part of Porch. |
| Average Revenue per Account per Month in Quarter | We define Average Revenue per Account per Month in Quarter as the average revenue per month generated across all home services company customer accounts in a quarterly period. Average Revenue per Account per Month in Quarter is derived from all customers and total revenue. |
| Average Revenue per Monetized Service in Quarter | We define Average Revenue per Monetized Services in Quarter as the average revenue generated per monetized service performed in a quarterly period. When calculating Average Revenue per Monetized Service in Quarter, average revenue is defined as total quarterly service transaction revenues generated from monetized services. |
| Free Cash Flow | We define Free Cash Flow as Operating Cash Flow adjusted for the purchase of property, plant and equipment and capitalized software. |
| Gross Combined Ratio (“GCR”) | We define Gross Combined Ratio as our insurance carrier’s gross losses plus IBNR adjustments divided by the gross earned premium for the respective period on a calendar year basis, plus non-claims costs divided by the gross written premium on a calendar year basis. |
| Gross Loss Ratio (“GLR”) | We define Gross Loss Ratio as our insurance carrier’s gross losses divided by the gross earned premium for the respective period on an accident year basis. |
| Gross Written Premium (“GWP”) | We define Gross Written Premium as the total premium written by our licensed insurance carrier(s) (before deductions for reinsurance); premiums from our home warranty offerings (for the face value of one year’s premium); and premiums of policies placed with third-party insurance companies for which we earn a commission. |
| HOA | Homeowners of America, our wholly owned insurance carrier |
| Monetized Services in Quarter | We define Monetized Services in Quarter as the total number of services from which we generated revenue, including, but not limited to, new and renewing insurance and warranty customers, completed moving jobs, security installations, TV/Internet installations or other home projects, measured over a quarterly period. |
| Policies In Force | We define Policies in Force as the number of in-force policies at the end of the period for the Insurance segment, including policies and warranties written by us and policies and warranties written by third parties for which we earn a commission. |
| Premium Retention Rate | We define Premium Retention Rate as the ratio of our insurance carrier’s renewed premiums over the last four quarters to base premiums, which is the sum of the preceding year’s premiums that either renewed or expired. |

**Non-GAAP Financial Measures:** This presentation includes one or more non-GAAP financial measures, such as Adjusted EBITDA (loss), Adjusted EBITDA (loss) as a percent of revenue. Definitions of these measures and reconciliations of these measures to the most directly comparable GAAP financial measure are available in the earnings release available on the investor relations website, at ir.porchgroup.com.

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