



Guidewire Software Announces Third Quarter Fiscal 2014 Financial Results

June 2, 2014

FOSTER CITY, Calif.--(BUSINESS WIRE)--Jun. 2, 2014-- Guidewire Software, Inc. (NYSE: GWRE), a provider of software products for Property/Casualty (P/C) insurers, today announced its financial results for the fiscal quarter ended April 30, 2014.

"Our third quarter results exceeded our expectations for both revenue and profitability," said Marcus Ryu, chief executive officer, Guidewire Software. "New customer wins, expansions of existing relationships, and several major implementation go-lives all represented progress in our mission to be the global Property/Casualty insurance industry's premier technology partner in the replacement of its obsolete legacy core systems."

Ryu continued, "We also continue to advance our product development in significant new initiatives launched over the last year. We see significant opportunity in strategic areas including portals, data management, and analytics, as we further build on the success of our proven core operating platform, Guidewire InsuranceSuite, in the marketplace."

Third Quarter Fiscal 2014 Financial Highlights

Revenue

- Total revenue for the third quarter of fiscal 2014 was \$82.0 million, an increase of 20% from the comparable period in fiscal 2013. Year to date revenue for fiscal 2014 was \$232.0 million, an increase of 14% from the comparable period in fiscal 2013.
- Total license revenue, including term and perpetual licenses, for the third quarter of fiscal 2014 was \$31.9 million, an increase of 39% from the comparable period in fiscal 2013. Term license revenue was \$28.2 million, a 58% increase from a year ago. Revenue from perpetual licenses was \$3.7 million compared with \$5.0 million a year ago. Maintenance revenue was \$10.4 million, up 15% from the comparable period in fiscal 2013, and services revenue was \$39.7 million, up 10% from the comparable period in fiscal 2013.
- Total license revenue, including term and perpetual licenses, for the nine month period of fiscal 2014 was \$86.0 million, an increase of 15% from the comparable period in fiscal 2013. Term license revenue was \$80.6 million, a 19% increase from a year ago. Revenue from perpetual licenses was \$5.4 million compared with \$6.5 million a year ago. Maintenance revenue was \$30.0 million, up 8% from the comparable period in fiscal 2013, and services revenue was \$116.1 million, up 14% from the comparable period in fiscal 2013.
- Rolling four-quarter recurring term license and maintenance revenue was \$165.3 million, an increase of 26.3% from the comparable period in fiscal 2013.

Profitability

- GAAP operating loss was \$3.4 million for the third quarter of fiscal 2014, compared to \$4.4 million GAAP operating loss in the comparable period in fiscal 2013.
- Non-GAAP operating income was \$10.9 million for the third quarter of fiscal 2014, compared to \$3.9 million non-GAAP operating income in the comparable period in fiscal 2013.
- GAAP net loss was \$1.4 million for the third quarter of fiscal 2014, compared to \$2.7 million GAAP net loss for the comparable period in fiscal 2013. GAAP net loss per share was \$0.02, based on basic and diluted weighted average shares outstanding of 68.3 million, compared to GAAP net loss per share of \$0.05 for the comparable period in fiscal 2013, based on basic and diluted weighted average shares outstanding of 57.0 million.
- Non-GAAP net income was \$7.6 million for the third quarter of fiscal 2014, compared to \$2.0 million non-GAAP net income in the comparable period in fiscal 2013. Non-GAAP net income per diluted share was \$0.11, based on diluted weighted average shares outstanding of 71.9 million, compared to \$0.03 non-GAAP net income per diluted share for the third quarter of fiscal 2013, based on diluted weighted average shares outstanding of 62.2 million.

Balance Sheet

- The Company had \$600.1 million in cash, cash equivalents and investments at April 30, 2014, compared to \$588.4 million at January 31, 2014. The Company had \$20.3 million in cash flow from operations in the third quarter, compared to cash flow from operations of \$5.0 million in the comparable period in fiscal 2013.

Conference Call Information

What: Guidewire Software Third Quarter Fiscal 2014 Financial Results Conference Call
When: Monday, June 2, 2014

Time: 2:00 p.m. PT (5:00 p.m. ET)
Live Call: (888) 812-8534, domestic
(913) 312-1484, international
Replay: (877) 870-5176, passcode 3010103, domestic
(858) 384-5517, passcode 3010103, international
Webcast: <http://ir.guidewire.com> (live and replay)

The webcast will be archived on Guidewire's website for a period of three months.

Non-GAAP Financial Measures

This press release contains the following non-GAAP financial measures: Non-GAAP operating income, Non-GAAP net income and Non-GAAP earnings per share.

Guidewire believes that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to Guidewire's financial condition and results of operations. The Company's management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses, for purposes of determining executive and senior management incentive compensation and for budgeting and planning purposes. The Company believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with other software companies, many of which present similar non-GAAP financial measures to investors.

Management of the Company does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in the Company's financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by management about which expenses and income are excluded or included in determining these non-GAAP financial measures. In order to compensate for these limitations, management presents non-GAAP financial measures in connection with GAAP results. Guidewire urges investors to review the reconciliation of its non-GAAP financial measures to the comparable GAAP financial measures, which it includes in press releases announcing quarterly financial results, including this press release, and not to rely on any single financial measure to evaluate the Company's business.

Reconciliation tables of the most comparable GAAP financial measures to the non-GAAP financial measures used in this press release are included with the financial tables at the end of this release.

About Guidewire Software

Guidewire builds software products that help Property/Casualty insurers replace their legacy core systems and transform their business. Designed to be flexible and scalable, Guidewire products enable insurers to deliver excellent service, increase market share and lower operating costs. Guidewire InsuranceSuite™ provides the core systems used by insurers as operational systems of record. Additional products provide support for data management, business intelligence, anytime/anywhere access and guidance and monitoring. More than 150 Property/Casualty insurers around the world have selected Guidewire. For more information, please visit www.guidewire.com. Follow us on twitter: @Guidewire_PandC.

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Cautionary Language Concerning Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our market positioning, future adoption of our products and future investments. These forward-looking statements are made as of the date they were first issued and were based on current expectations, estimates, forecasts and projections as well as the beliefs and assumptions of management. Words such as "expect," "anticipate," "should," "believe," "hope," "target," "project," "goals," "estimate," "potential," "predict," "may," "will," "might," "could," "intend," variations of these terms or the negative of these terms and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond Guidewire's control. Guidewire's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to, risks detailed in Guidewire's most recent Forms 10-K and 10-Q filed with the Securities and Exchange Commission as well as other documents that may be filed by the Company from time to time with the Securities and Exchange Commission. In particular, the following factors, among others, could cause results to differ materially from those expressed or implied by such forward-looking statements: the market for our software may develop more slowly than expected or than it has in the past; quarterly and annual operating results may fluctuate more than expected; seasonal and other variations related to our revenue recognition may cause significant fluctuations in our results of operations and cash flows; our reliance on sales to and renewals from a relatively small number of large customers for a substantial portion of our revenues; our services revenues produce lower gross margins than our license and maintenance revenues; assertions by third parties that we violate their intellectual property rights could substantially harm our business; we face intense competition in our market; weakened global economic conditions may adversely affect the P&C insurance industry including the rate of information technology spending; our product development and sales cycles are lengthy; the risk of losing key employees; changes in foreign exchange rates; general political or destabilizing events, including war, conflict or acts of terrorism; and other risks and uncertainties. Past performance is not necessarily indicative of future results. The forward-looking statements included in this press release represent Guidewire's views as of the date of this press release. The Company anticipates that subsequent events and developments will cause its views to change. Guidewire undertakes no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements should not be relied upon as representing Guidewire's views as of any date subsequent to the date of this press release.

GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	April 30, 2014	July 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 159,336	\$ 79,767
Short-term investments	271,033	76,932
Accounts receivable	58,319	40,885
Deferred tax assets, current	2,917	2,897
Prepaid expenses and other current assets	11,589	9,612
Total current assets	503,194	210,093
Long-term investments	169,780	51,040
Property and equipment, net	12,459	12,914
Intangible assets, net	5,799	6,879
Deferred tax assets, noncurrent	31,786	21,091
Goodwill	9,205	9,048
Other assets	1,485	1,205
TOTAL ASSETS	\$ 733,708	\$ 312,270
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,418	\$ 6,517
Accrued employee compensation	24,214	26,302
Deferred revenues, current	52,746	37,351
Other current liabilities	5,088	4,614
Total current liabilities	88,466	74,784
Deferred revenues, noncurrent	5,552	3,845
Other liabilities	4,695	5,212
Total liabilities	98,713	83,841
STOCKHOLDERS' EQUITY:		
Common stock	7	6
Additional paid-in capital	657,027	237,769
Accumulated other comprehensive loss	(1,386)	(1,558)
Accumulated deficit	(20,653)	(7,788)
Total stockholders' equity	634,995	228,429
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 733,708	\$ 312,270

GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands except share and per share data)

	Three Months Ended April 30, 2014	2013	Nine Months Ended April 30, 2014	2013
Revenues:				
License	\$ 31,927	\$ 22,918	\$ 86,012	\$ 74,482
Maintenance	10,440	9,110	29,969	27,690
Services	39,668	36,222	116,058	101,567
Total revenues	82,035	68,250	232,039	203,739
Cost of revenues: ⁽¹⁾				
License	845	139	3,394	436
Maintenance	2,238	2,079	6,192	5,430
Services	34,259	33,774	106,397	89,071
Total cost of revenues	37,342	35,992	115,983	94,937
Gross profit:				
License	31,082	22,779	82,618	74,046
Maintenance	8,202	7,031	23,777	22,260
Services	5,409	2,448	9,661	12,496
Total gross profit	44,693	32,258	116,056	108,802

Operating expenses: ⁽¹⁾				
Research and development	20,634	16,854	58,444	47,503
Sales and marketing	17,968	11,915	53,871	36,680
General and administrative	9,489	7,851	27,567	23,962
Total operating expenses	48,091	36,620	139,882	108,145
Income (loss) from operations	(3,398)	(4,362)	(23,826)	657
Interest income, net	415	137	919	359
Other income (expense), net	190	(268)	372	(104)
Income (loss) before benefit from income taxes	(2,793)	(4,493)	(22,535)	912
Benefit from income taxes	(1,435)	(1,823)	(9,670)	(2,366)
Net income (loss)	\$ (1,358)	\$ (2,670)	\$ (12,865)	\$ 3,278
Earnings (loss) per share:				
Basic	\$ (0.02)	\$ (0.05)	\$ (0.20)	\$ 0.06
Diluted	\$ (0.02)	\$ (0.05)	\$ (0.20)	\$ 0.05
Shares used in computing earnings (loss) per share:				
Basic	68,261,964	57,017,856	64,718,852	55,887,786
Diluted	68,261,964	57,017,856	64,718,852	61,732,623

(1) Amounts include stock-based compensation expense as follows:	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
Stock-based compensation expenses:				
Cost of license	\$ 41	\$ —	\$ 245	\$ —
Cost of maintenance revenues	309	313	932	914
Cost of services revenues	3,927	3,150	13,869	9,205
Research and development	3,075	2,056	10,147	6,544
Marketing and sales	3,440	676	12,153	4,269
General and administrative	3,121	2,077	10,174	7,498
Total stock-based compensation expenses	\$ 13,913	\$ 8,272	\$ 47,520	\$ 28,430

GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ (1,358)	\$ (2,670)	\$ (12,865)	\$ 3,278
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	1,770	1,137	4,978	3,182
Stock-based compensation	13,913	8,272	47,520	28,430
Excess tax benefit from exercise of stock options and vesting of RSUs	(209)	(137)	(498)	(323)
Deferred taxes	(1,004)	(2,776)	(10,712)	(4,779)
Other noncash items affecting net income (loss)	1,088	189	2,227	272
Changes in operating assets and liabilities:				
Accounts receivable	(1,702)	(6,435)	(17,820)	(15,949)
Prepaid expenses and other assets	(3,290)	(305)	(2,187)	403
Accounts payable	578	(24)	135	700
Accrued employee compensation	2,784	2,442	(2,279)	(5,049)
Other liabilities	1,067	(1,142)	382	1,959
Deferred revenues	6,687	6,452	17,172	(4,012)
Net cash provided by operating activities	20,324	5,003	26,053	8,112
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of available-for-sale securities	(166,904)	(54,784)	(521,005)	(170,513)
Sales and maturities of available-for-sale securities	95,818	43,367	206,046	57,256
Purchase of property and equipment	(1,088)	(1,205)	(3,669)	(7,061)
Acquisition, net of cash acquired	(62)	—	(157)	—
Decrease in restricted cash	—	—	—	3,520
Net cash used in investing activities	(72,236)	(12,622)	(318,785)	(116,798)
CASH FLOWS FROM FINANCING ACTIVITIES:				

Proceeds from issuance of common stock upon exercise of stock options	3,211	2,333	7,354	7,964
Taxes remitted on RSU awards vested	(10,456)	(5,498)	(25,654)	(14,695)
Proceeds from issuance of common stock in connection with public offerings, net of underwriting discounts and commission	—	—	389,949	—
Costs paid in connection with public offerings	2	—	(408)	—
Excess tax benefit from exercise of stock options and vesting of RSUs	209	137	498	323
Net cash provided by (used in) financing activities	(7,034)	(3,028)	371,739	(6,408)
Effect of foreign exchange rate changes on cash and cash equivalents	653	(288)	562	(94)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,293)	(10,935)	79,569	(115,188)
CASH AND CASH EQUIVALENTS—Beginning of period	217,629	101,465	79,767	205,718
CASH AND CASH EQUIVALENTS—End of period	\$ 159,336	\$ 90,530	\$ 159,336	\$ 90,530

GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES

Reconciliation of GAAP to Non-GAAP Operating Results

(unaudited, in thousands)

The following tables reconcile the specific items excluded from GAAP in the calculation of non-GAAP operating results for the periods indicated below:

Income (loss) from operations reconciliation:	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
GAAP net income (loss) from operations	\$ (3,398)	\$ (4,362)	\$ (23,826)	\$ 657
Non-GAAP adjustments:				
Stock-based compensation ⁽¹⁾	13,913	8,272	47,520	28,430
Amortization of intangibles ⁽¹⁾	360	—	1,080	—
Non-GAAP net income from operations	\$ 10,875	\$ 3,910	\$ 24,774	\$ 29,087
Net income (loss) reconciliation:				
GAAP net income (loss)	\$ (1,358)	\$ (2,670)	\$ (12,865)	\$ 3,278
Non-GAAP adjustments:				
Stock-based compensation ⁽¹⁾	13,913	8,272	47,520	28,430
Amortization of intangibles ⁽¹⁾	360	—	1,080	—
Tax effect on Non-GAAP adjustments ⁽²⁾	(5,330)	(3,599)	(18,414)	(9,908)
Non-GAAP net income	\$ 7,585	\$ 2,003	\$ 17,321	\$ 21,800

⁽¹⁾ Adjustments relate to amortization of acquired intangibles and stock-based compensation recognized during the period for GAAP purposes.

⁽²⁾ Adjustment reflects the tax benefit resulting from all non-GAAP adjustments.

GUIDEWIRE SOFTWARE, INC. AND SUBSIDIARIES

Reconciliation of GAAP to Non-GAAP Operating Results

(unaudited, in thousands except share and per share data)

The following tables reconcile the specific items excluded from GAAP in the calculation of non-GAAP operating results for the periods indicated below:

Earnings per share reconciliation:	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
GAAP earnings (loss) per share - Diluted	\$ (0.02)	\$ (0.05)	\$ (0.20)	\$ 0.05
Amortization of intangibles acquired in business combinations	0.01	—	0.02	—
Stock-based compensation	0.20	0.15	0.73	0.46
Less tax benefit of non-GAAP items	(0.08)	(0.06)	(0.28)	(0.16)
Non-GAAP dilutive shares excluded from GAAP EPS calculation ⁽³⁾	—	(0.01)	(0.02)	—
Non-GAAP earnings per share - Diluted	\$ 0.11	\$ 0.03	\$ 0.25	\$ 0.35

⁽³⁾ Due to the occurrence of a net loss on a GAAP basis, potentially dilutive securities were excluded from the calculation of GAAP earnings per share, as they would have an antidilutive effect. However, as net income was earned on a Non-GAAP basis, these shares have a dilutive effect on Non-GAAP earnings per share and are included here.

	Three Months Ended January 31,		Nine Months Ended April 30,	
	2014	2013	2014	2013

Shares used in computing non-GAAP per share amounts:

Weighted average shares - Diluted	68,261,964	57,017,856	64,718,852	61,732,623
Non-GAAP dilutive shares excluded from GAAP EPS calculation (3)	3,675,429	5,209,194	4,190,824	—
Pro forma weighted average shares - Diluted	71,937,393	62,227,050	68,909,676	61,732,623

(3) Due to the occurrence of a net loss on a GAAP basis, potentially dilutive securities were excluded from the calculation of GAAP earnings per share, as they would have an antidilutive effect. However, as net income was earned on a Non-GAAP basis, these shares have a dilutive effect on Non-GAAP earnings per share and are included here.

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