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Guidewire Software, Inc. (GWRE)

Investor Day

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President & Chief Revenue Officer, Guidewire Software, Inc.

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Ladies and gentlemen, please welcome Alex Hughes, Vice President of Investor Relations, Guidewire.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

All right. Thank you. Well, welcome. Welcome to New York. Welcome to the Guidewire's Analyst Day or the world's worst wedding. Anybody on Zoom, you can't see the room, but it looks like a very nice wedding in here. Hence the Cheryl Lynn walk on music. In any event, either way, we're excited to be here. I think we have a 110 people registered in person, which is a big turnout for us. We've got well over another hundred on Zoom. Lots of interest in the Guidewire story.

I think in the last four years that I've been with Guidewire, this year is definitely the year where we've seen notably the biggest increase in new investor interest, which is exciting. I think it's great that we have the Analyst Day now because it gives us an opportunity, really get a lot of those investors grounded in what I think is a really exciting Guidewire story. We'll be mindful speakers that not everyone's going to be totally familiar with our [ph] Lexicon (00:01:08) fully ramped ARR, DWP, so we'll try to make sure that when we present, we're very clear for everyone.

With that, wrong one, just to underscore that we're not at a wedding. This is our safe harbor. We're going to be making forward-looking statements that contain risks and uncertainties. Please be mindful of that. Diving into the event itself, I think we've got a great lineup. We have Mike Rosenbaum, our CEO, kicking it off with P&C Insurance; John Mullen, our Chief Revenue Officer and President; and after that, we'll be talking about executing on a large market opportunity, sorry.

And then, Diego Devalle, after that, will be talking about platform, scale, driving, efficiency and opportunity. And then at that point, what we'll do is we'll move to Q&A on stage with the three of them, and we'll invite those in the room to ask questions for about 15 or 20 minutes. We'll take a 10-minute break and then we'll come back. And Christina Colby will lead a customer panel and you'll have a chance to kind of hear the perspective of three great customers, who have very unique experiences with Guidewire.

And then, finishing up the day will be our Chief Financial Officer, Jeff Cooper, who will talk about delivering on our cloud model. And then, if you're not exhausted by then, we'll have one more Q&A session for 45 minutes and we'll open that one up to the folks that are on Zoom. I think this is a very inquisitive group, so I would expect to be a lot of questions for the people here.

I will do my best to take questions for those who are on Zoom. Just do me a favor and submit those in the Q&A app, not the chat app, and where I see fit, I'll try to answer one of those questions for the members of the team here. And then, we will finish the day with a cocktail reception next door. So, that's what we have in order.

And with that, it'd be my pleasure to welcome up, Mike.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Thanks, Alex. Yeah. It always gets me a little uncomfortable when they put the music and you walk on stage. So, give me a second. Let me just start by saying thanks very much for joining us today. It's great to be here. As Alex said, we're going to walk through what's going on with the company, what's going on with the Guidewire story. Lots of time and access with the executives for Q&A, so, don't worry, we'll stay around forever and talk to you guys as much as you want.

I do want to say, though, again, thank you very much for coming. I also want to say for the folks that have really been here with us through multiple years, certainly, the five years that I've been part of the company. We really appreciate your support and motivation, your impatience very often with how we were doing on things actually was super motivating for us. And I'm being serious. We genuinely appreciate it. I think what you're going to see from us, I hope, is a little bit less about the transformation, a little bit more about what's the go forward plan at the company and how this is just a simply a best-in-class vertical SaaS company.

So, hopefully that comes through. We're still going to talk a little bit about the transformation and where we were, but we do genuinely appreciate your patience, let's say. I also want to say thanks for the people who are coming or new to the company. We're going to give you like a baseline into what we're all about, what we do, and hopefully ground you a little bit in the Guidewire story. So, maybe there's new investors that will understand where we are now and why we think it's interesting to be part of the journey going forward.

So, I start almost every presentation with our mission. I don't think this has changed in the 20x year history of Guidewire. We exist to serve the P&C insurance community. We want to provide a technology platform that enables them to be more agile, enables them to be more innovative, enables them to grow more and more efficiently, enables them to engage with customers in new ways, with new products and new channels. This is a very, very important industry to the world. I'm going to talk a little bit about that in the presentation. And that idea of serving an industry that matters a little bit more than ourselves matters to everybody at Guidewire, and it's a really important part of our culture.

And the other thing I would like to say about this mission is probably pretty, pretty much the same for 20 years. I genuinely expect this will probably be pretty same for the next 20 years. There's a lot more room to grow. There's a lot more job to be done here. And we somewhat, 20 years in, feel like we're just getting started. So, I also want to say, like, if you want to understand Guidewire, you have to understand the P&C insurance industry that we serve.

Okay? First of all, it's very, very big. And now, you see \$2.9 trillion in direct written premium, that's the value that this insurance industry underwrites. It's also a very concentrated industry with just about, let's say, 300 insurers covering, as you can see, between Tiers 1 and Tier 2, so very significant percentage of this market. And that has always been the primary focus of Guidewire from a technology perspective, is to look at the unique, very specific and unique requirements of those Tier 1 and Tier 2 insurance companies and focus on doing that hard job very well.

And we think very uniquely, because that's what's going to unlock the great, the vast majority of the direct written premium, which correlates to our total addressable market. And I don't want to ignore Tiers 3, 4 and 5. We've plenty of great customers in that segment of the market. We certainly serve that segment of the market, and we certainly have product that serves that segment of the market very, very well. But it's important to recognize that our ability to serve Tier 2 insurers, Tier 1 insurers, unlocks the vast majority of our potential.

The other thing that's really important to understand about Guidewire and I expect very important incrementally going forward more and more every quarter and every year is that this a global industry. It's pretty amazing that we can take a platform that works very well in the United States and we can apply it globally into all the largest, all the largest countries in the world, in Asia and in Europe. Okay?

So, let me give you a perspective of what is P&C insurance. This is a financial service that is really important to almost every aspect of our society, of our economy, our personal lives, our cars. It gives us the ability to drive cars, own homes, start businesses, run corporations. It's also very complicated. If you think about the challenge associated with understanding the unique characteristics of each of these components, each of these risks, and then modeling that into a technology platform, so that you can effectively underwrite those risks. This is a very difficult thing to do.

In some ways, Guidewire is this like perfect technology platform that does everything. But really we're almost a starting point for each insurance company that's focused on one particular part of this industry to tailor the implementation, so that they're able to underwrite that risk more effectively. I think this is really important to understand, I think it's also a great differentiator for our company going forward.

The other thing to understand about this industry that we serve is that it's incredibly resilient, incredibly durable. These recessions, these financial impacts, these issues, they pop up, they don't make a huge dent in this industry. Now, the industry doesn't grow extremely fast, but if you look all the way back to 1980 and compare yourself today, it does continually, steadily keep getting bigger. Somebody asked me right at the outset of this, what's going on with this hurricane? Is that going to have an impact on Guidewire? And actually, I apologize. I shouldn't mention this now that I say the hurricane, I forgot to talk about this when we started.

That's a good example of a durability, but also it's a good example of what we do, right? So, there's a hurricane, there's a big event going on in Florida right now. There's a whole lot of people who are – their lives are disrupted, their businesses are disrupted. And it's like these events is why the P&C insurance industry exists. But what you have, what you start to see year-after-year in catastrophe after catastrophe is that the industry is built to be resilient and the industry is built to last. And that durability, that resilience that follows through to Guidewire, right.

Our ability to meet our targets consistently quarter-over-quarter relates to the fact that the insurance industry kind of, in some ways, operates on a different cadence, operates with a different set of variables, and is able to make longer term decisions based on the track record and the history that has underlined this industry in this case for almost 30, 40, 50 years. Okay?

But it's not all perfect, right. There's a lot of pressure on the modern P&C insurance company. Okay. Whether or not, the inflation impact to the insurance industry was dramatic, right? It hit suddenly and it took a long time. It took a cycle or two for them to be able to adjust premiums to account for the increased expense of fixing houses, fixing cars, addressing claims. They're also under pressure from social inflation. Raise your hand if you know what that means, right?

What social inflation is, is the extra claims expense associated with the increasing propensity to litigate a claim and so, this is something that we have to help insurance companies predict, so that we can help them better manage claims and better reduce the impacts of the litigation expenses associated with claims management. There's new distribution models that are constantly popping up and there's potentially threats to the way that insurance is distributed.

There's increasing expectations from consumers, from agents. We all expect that the exact same convenience that we're able to experience when we buy something in our mobile app off of Amazon and it shows up at our house in 15 minutes, we expect that same convenience from our financial services providers, and insurance is no different and that's a challenge. That's something that we have to help provide technology platforms to facilitate the creation of those convenient experiences for our customers.

There's also talent constraints. People want to work on modern technology. I'm going to talk for a second about the legacy sort of baseline that exists in most P&C insurance companies and people want to work the smartest people in the world. They want to work with the technology that's modern, something that's going to help them advance their careers and this is a challenge for the industry.

I talked about weather-related risks, the changes in climate are causing the severity of these storms to increase, are causing the approach that we take to estimating loss and estimating the insurability of a house or a car or a company to change. And that relates to data, relates to measuring what's going on in the environment. It relates to measuring what's going on in our operation and the industry and in a very smooth and efficient way, filtering that back into pricing decisions.

These things are all challenges for the industry and the real trouble is, is that most of this industry is based on mainframe technologies. In some ways, like it was great that the industry was one of the first to modernize, but it was also creates a huge challenge. And that these big complex systems were built, they were built to last for 30, 40 years. They weren't really built to be – they weren't really built to be flexible. Okay? This is a picture of what it might look like for Guidewire to be implemented and integrated into 50 or a 100 other systems that kind of represent the core operation of a modern insurance company.

It's heavy, it's complex. Like I said, it's very often written in COBOL, it's very often written in mainframe, and it is not flexible. These companies are faced with this like very tough challenge. On the one hand, we want our systems to be perfectly reliable, perfectly secure, perfectly scalable and perfectly efficient. At the same time, we want them to be flexible, fast, innovative, extensible. We want to be able to meet any challenge. It's very difficult to do both of these things at the same time. This is what Guidewire solves for this industry. Okay?

And over the past five years, we have now made this a cloud service that's constantly evolving and constantly improving. And so, no longer you need to think about these systems as something we implement and then live with for the next 20 years. It's something that we implement, partner with Guidewire and it's constantly evolving for the next 100 years, I hope. So, we've built it on the latest and greatest cloud infrastructure from AWS. We've modularized the set of core services that can support all of our world-class applications.

And by the way, on the world-class applications, there's news today that I'm not supposed to put a slide up about, but I think I'm allowed to mention that there's a Gartner Report talking about Guidewire and InsuranceSuite that just launched today, we're proud of the results and we'll market it. I don't know if this counts as marketing, so I apologize to Gartner if it does, but we'll market it when we're allowed. We're very proud of that results.

And it's all kind of coordinated through a marketplace and an ecosystem of partners that effectively solve this problem, effectively create a technology platform that's as reliable as any Tier 1, Tier 2, Tier 3, Tier 4, Tier 5 insurance company in the world needs. And it provides the level of agility and extensibility to help them meet those pressures. Okay?

The other thing I think that's very important to understand about Guidewire is that we uniquely solve this problem across the entirety of an insurance lifecycle. Okay. We have an application that covers everything from the

definition of a product to the distribution of that product, to the quoting and underwriting of that product, to managing the policy once it's in force and then managing a claim if and when it occurs. And we're collecting all of that information that we can glean from that business process, putting it into our data platform and providing it to the insurance companies, so that they can make this loop operate more and more effectively and more and more efficiently over time.

Each of these things is a component. You do not have to buy this all at once, although of course we would love for you to do so, but they can be deployed independently. But then over time, what we find with customers is they're deploying more and more of these components, so that it's all working as one cohesive suite and allowing the organization to operate more and more effectively over time.

We have used the opportunity to become a cloud company by infusing these cloud native services into this whole lifecycle. So, whether or not you're talking about creating digital experiences on top of these business applications or capturing the data like I talked about with a data platform, managing workflows and rules. These modular cloud services have been infused into the entirety of the product suite, such that those generic IT requirements can be done in a way that is consistent across the entire process.

And we also consider generative AI as just another one of the services that we will infuse into all of our products. I'm not going to talk a ton about this, Diego is going to talk a little bit about this. We're going to give a bigger explanation of our perspective and strategy around generative AI at our upcoming Connections User Conference in a month.

We think that this capability, let's say, unlocked by large language models will be infused into most aspects of our application suite over time. And we expect to be able to provide those capabilities, but also provide these capabilities as a platform service that our customers can use and configure and customize to improve alongside all of their other business objectives.

And probably, takes me 20 minutes to get there, but the most important thing is that this genuinely is working. It is working very, very well. We are enabling some of the biggest, most complicated property casualty insurance programs to improve release over release over release. This product works. This cloud strategy works. These programs are successful. These are some of the most respected brands in the industry. USAA able to launch a new product in 10 months. Streamlined quote flows across prefilled data points, making the company more efficient, excuse me, and launching a digital property claims process that improves collection of information by 38%.

These are great outcomes and they will continue to improve. Definity, I'm not going to steal the thunder. Tatjana is here to talk to you later today. But AAA, another great example of somebody who standardized the entire InsuranceSuite, the entire insurance lifecycle on Guidewire, 18 million members in 22 states. CNA is another one of the great examples of just, of a truly great partner to Guidewire. There's a little bit of a fight inside of Guidewire about whether or not CNA was the first customer or the second customer or tied for the first customer of the company, right. So, this is a company that's had a partnership with us for 15, 16, 17 years.

And they are now on the journey with us to cloud. And they're taking a very interesting approach as they're doing it line of business by line of business. They're trying not to say, we're going to do another giant Big Bang project. Instead, they're chunking it up line of business by line of business, so that they're able to take advantage of the flexibility that the cloud platform from Guidewire now offers. And it just to me kind of symbolizes the durability and the commitment that we've made to this industry, that we can take a customer all the way from the very first line of code that was written at Guidewire all the way to the threshold, the cutting edge of what we're doing right now.

And last but not least, Erie, and these statistics apply kind of to IT agility and IT efficiency, but that is directly related to the business outcomes that they're going to be able to achieve by updating faster, integrating new applications to their insurance products faster. This slide kind of to me multiplied by hundreds and hundreds of more customers is exactly why we're winning. Got it?

So, a lot of people have talked me over the past couple of months and said, like, what's going on? You guys are doing well, right? We're able to sell the story. We're able to make sure that things are improving. We talk to you guys on a quarterly basis. I will tell you, the secret to our success is that every single customer that has chosen to embark on this cloud journey with us is successful. And my commitment, our commitment as a company is that they're all referenceable.

And I guess sometimes you have to get into like exactly what does that mean, referenceability. What I mean is, is if they're sitting at the table with us and saying, are you happy that you made this decision? Was it a mistake or was it a success? They will all say it's a success. This is kind of baked into the culture at Guidewire as we will stop at nothing to ensure that every single customer is successful. It wasn't always assured. I'll admit that like there were some moments in the past five years where the cloud execution was challenging.

But I can say very, very confidently at this point in our journey, every single one of these customers, every single one of these programs is successful. And that's what's creating the buzz, that's what's creating the attitude. And the kind of feeling that betting this next project on Guidewire is a very good bet. That's what leads to more sales. That's what's leading to more go-lives, that's what's leading to the ARR progression that we're very proud of. Okay.

And so this one, maybe someday this maybe be the last moment in my career where I present the gross margin slide. So, but this kind of tells the story in a way that I think is very important. Okay. We're through the trough. Okay. This company, our management team, our shareholders, our board of directors, we made a very significant investment. You can call it a bet. Right. But we made a very significant investment in building a cloud platform, hiring the people we needed to run that cloud platform, hiring the people we needed to do those implementation successfully and make sure it worked. Okay. But what's magic about the position we're in now is that you can very clearly see that we are a software company, right? We are a software company that aspires to achieve gross margins in line with all the other great software companies in the world. Okay. We're not done. Okay. We've gotten through the trough. We're seeing the improvement, but we're not done. This will continue to improve. And our aspiration is we'll continue to serve the P&C industry, we'll continue to serve our customers as effectively as we can. We'll continue to grow. We'll continue to expand our margins.

The other important thing I would say about this, our story and who we are as a company, is that we do not do this alone. Okay. One of my personal favorite quotes is from Bill Gates, who said, if you want to call yourself a platform, you should aspire to create more value for your partners than you keep for yourself. And if you do that, you could consider yourself a platform. Now, I don't know what the ratio of that is at Guidewire, but it's – we are certainly creating a lot of value for an ecosystem of partners that operate around us and with us and help us ensure that this whole thing works and this whole thing keeps accelerating. We call this our propeller slide, so it's going to keep pushing us forward.

Like, you really don't understand the scope of our ecosystem until you look at this list of world class brands, systems integrators, PwC. Now, of course, we are the first P&C insurance partner for every single one of these brands. But what tells you the real scope of what we're doing with them is when you think about Guidewire is that compares to every other software company. Top four all alliances at PwC. First in financial services at Capgemini.

Top five at EY. Top three all alliances at Cognizant, which I think is just amazing. Top 13 at Deloitte and top three in financial services at Accenture. And I'll admit, actually, I joined this company five years ago, and when I understood the scope of the work that is being done around our platform made me realize just how much of an impact this company really has on this industry and how much you could say of a moat that we really have around the thousands and thousands and thousands of people that are trained and capable and able to implement these systems successfully. It's not just about us.

It's also really important to recognize that we are working very hard to continue to create the leading marketplace of applications to augment everything that we do. We are going to do more in our product suite. We're not going to do everything. And when we don't do everything, we need partners that plug and play into Guidewire and help facilitate an acceleration of the value and the implementation value that each of our customers can extract. So, this is just a very, very important part of the company's strategy. And as you think about Guidewire, investing in Guidewire, it's this ecosystem that I think provides a pretty significant differentiator. All right. Last slide for me.

Our priorities going forward as I see them right now. Number one, I said this a couple of times during the speech, trust, like nothing matters more than the success of every single one of our programs, every single one of our customers. We will not waiver from that commitment. Number two, we have to maintain the core applications, the differentiation, the leadership that we have achieved so far, but we expect to continue to invest to make sure that we continue to lead. We're not the only software vendor in this category. We're currently doing well right now, but that's only – we're only going to stay as good as the next deal. And we've got to make sure we keep investing in those products to ensure that they continue to improve.

Next year and this is probably the one that's incremental for this year, is now that we've come through this journey a little bit with respect to the cloud transformation of the company, we're starting to look at the portfolio of products we can build, we can offer, we can extend with, right? This is more and more a focus of the management team and the employees at the company. But this is in order. Okay. I just want to be clear. Make sure that the customers are successful, the baseline operations of the company need to stay, need to stay working very, very well. That underlies the base case of the business. We will add new products, we will execute on this initiative. That will be I have no doubt we'll be successful. But this is going to be a multi-year journey for us as we build these things out and become, get these things into market and start to add addressable market with these products going forward.

I talked about the ecosystem. No change in the strategy, we'll continue to be a software company and try to foster the best ecosystem for this industry. And finally profitability. We have achieved, I would say, a pretty healthy degree of focus and efficiency at the company. With respect to our focus on improving margins, I don't want that to go away. We will not, we will not let that go away actually. You will see in the numbers that Jeff describes that Jeff walks you through, we expect to be able to grow the company, but we also expect to grow the company faster and we can grow expense. And so margins should, and I expect, continue to expand year over year over year given the position and the structure that we've created so far. So, I couldn't be more happier about the strategic position of the company right now. I think there's a tremendous amount more that we can do for the industry. And I hope you kind of glean from us, it's like we're very proud of what we've accomplished so far, but really kind of feel like this point. We're just getting started. We're just thinking about how to think about how to be the best software company this industry needs to be able to succeed and be able to protect our world more effectively from the risks that sort of are just the nature of living.

So, with that, I will turn it over to John Mullen, our President and Chief Revenue Officer.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

Okay. Thank you all for being here. Truly an honor to have this conversation with you all today. I've been with Guidewire for about three years in the Chief Revenue Officer role, and it's been a really good journey for me to understand where we've been, where we're going. Mike showed you the progress chart. That's been a fun journey. And really, as I talk to you today, we'll talk a little bit about where the TAM is, a little bit about last year from a performance perspective. Then we'll zoom out a little bit and talk about an industry perspective to launch where we go into from a priorities for the year ahead.

A couple of quick comments. Mitchell is bearing down on Florida last over three weeks hitting generally the same area. Brutal, a brutal experience for those individuals. But as I've spent about 25 years in property and casualty insurance and it has been, I spent a little bit of time outside of it with the opportunity to join Guidewire, I found my way back into it. And these moments of truth that our customers are going through right now with claimants experiencing what they're experiencing. You'll see the insurance brands that are our customers show up with their mobile trucks, with their assistance to the community. It's something that I take great pride in being a part of. And we'll talk a little bit about how I think we can be more a part of that and an ever-increasing value proposition to that connection point between insurance carriers, insurers, and the relationship with society.

The TAM is relatively unchanged year-over-year. Mike showed you the chart. Now, this is not, this is, there's not a whole lot of change year-over-year in the TAM. What does change and what we're pressured on every day with our teams and what we're focused on is accessing that TAM that is increasingly important to have the conversations, to build the products, to build the platform and deliver the platform that brings that journey together between our relationship with those customers. So, accessibility of this TAM is really something I spend a lot more time talking about and it'll show up a little bit in what Diego talks about. So, large market, the idea of SaaS as a destination for this market, while it can be different by region and even very different by country and even very different by culture for the customers that we serve.

SaaS as a destination is a maturing concept. We have a part in developing that maturity. These conversations in how we show up in every geography is important. Over the last two years, we've added a managing directorship and leadership in EMEA. We've added the same in APAC. The object there is to show up in region, in culture, in context, in content that is important to the customers that we serve in that market. Last year, a little quick review on last year. Our win rates last year had some nice progression. So, the two blue is of the deal core system decisions that came to market. On the pie chart on the left-hand side, that's our win rate, both the dark blue and the light blue. Some of them cloud upgrades, some of them net new, okay. So, a little bit of progression over last year on a win rate basis, very pleased with our win rates. That showed up in quarterly earnings calls.

If you look at the chart on the right-hand side, this is something that has been true for Guidewire for some time. But really what that represents is for the deals that came to market for the DWP, for the premium that those deals influenced, what's the share of market by DWP?

So, we certainly look at it on a deal-by-deal basis, but we also look at out on a market acquisition basis. We have changed a little bit. You'll notice the slides a little bit different than last year. As we look at the deals through the course of last year, the construction of some of those deals more and more was a migration and an add-on product and some expansion of geographic scope or line of business scope because it becomes a little bit more difficult to delineate what part of the premium was ascribed to each part of that deal. So really, the premium just picks up both of those types of deals, both the cloud upgrade and the net new competes. Okay.

So, really pleased with the team's performance on the execution last year on a sales front basis. We've always been pretty good at deals. Okay. This has been the backbone of Guidewire. What's starting to progress more and more under the leadership of our Customer Success Management team, which reports to Christina Colby, our Chief Customer Officer. What's been really critical for us is the investment that we're making in account management. So, we often talk about tiers, but really tiers are a collection in this industry of the accounts that make up insurance carriers or insurers of that size. So, more and more, we are investing in long range planning with these customers to become more of a strategic element of how they plan, how they think about not just core operations, but how they think about indemnity outcomes, insurance outcomes.

And this is an investment we've made. It's an investment we'll continue to make it. It is absolutely true that by tier there is a lot of white space or per the blue chart, blue space to go after. But what's really interesting in this is how much space there is to acquire in those customers that we have some relationship with, whether it's one line of business, one geography or one InsuranceSuite product. So, there's a tremendous amount of opportunity unlocked by our account management motion, and we'll talk about that as we go into the focus for this coming year.

International markets remains a very significant growth potential to us. Mike mentioned the impressive ability over the last couple of years to really take what was – take this product and really serve it out to the industry across all the different geographies, across the different permutations. This is not easy, but the opportunity is very rich. Okay. Americas is a very large market, EMEA is a very large and fragmented market. APAC probably more so fragmented, but there are points of great density in the market. Japan is very important to us. We'll talk about that as we go into our focus for this year. It takes a very intensive and long-term focus to address these markets and their dynamics.

Okay. So, that's last year. Okay. Those that – it says really strong execution on the deals, developing and strong execution on the accounts and a sustaining commitment to the international markets. As we zoom out to the industry, we are at a really unique point in time. It should thread through all of the conversations today. For the last 200 years or so, the industry has really struggled in this balance between driving efficient operations, making better decisions through the science of insurance, call it risk selection and pricing, and the distribution of risk, whether it'd be through agents or brokers. These things have competed. These priorities have competed with each other at odds with each other for a tremendous, tremendously long time in the history of property and casualty insurance. It can be good and easy to start as an expert underwriting company, pick a risk, be best in the world at it. It then becomes very challenging to run that at scale and build the operations to run that at scale and then access the markets to continue to grow from a distribution standpoint. That challenge is really why Guidewire exists. But that challenge on the SaaS modality really unlocks a huge potential and what I'm really proud of, both in my prior chapter of being a partner to Guidewire outside of Guidewire and being a part of Guidewire is this moment in time where Guidewire's partnership with the industry is really well-placed with what the industry needs to do to solve what's ahead.

We make no mistake about it. Standardization and running in the GWCP platform and InsuranceSuite is why we exist and why we're having these conversations with customers. It's why they're at the table. The ability to decouple the burden of core processing from change, the necessity of change, and all the constraints that Mike talked about is absolutely critical to creating this harmonious relationship between us and customers and amplifying both the pace and precision of business change is what unlocks indemnity value for our customers. This is the vision we have, and it takes a deep commitment, not just from us to the industry, but from the industry and our partners, some of which you'll hear from on the panel today to help us get better every day. This is a partnership amongst many, many partnerships in the industry and throughout my career, this is the deepest sense of partnership that I've felt, and it's really something I'm really proud of.

So, let's talk about what that means as we go into next year. So talking more and more, you'll hear it more and more talking about the customer's lens, indemnity outcomes, insurance outcomes, the focus on underwriting risk selection and pricing. These are the capabilities that sit on top of core processing that create winners and losers as much as any other decision in the insurance industry. We have a tremendous amount of data. We have a tremendous footprint. We look at it, we have access to an ownership of an increasing number of the screens upon which employees inside insurance companies do their work. So, our ability to get the right decisions to the right people at the right time and increase the collective expertise of insurance carriers and insurers is absolutely critical. We have established ourselves as a core claims processing system that the industry can standardize on, focusing on total claims outcome, indemnity decisions, reserving decisions, litigation, fraud management, all of those things, whether they're capabilities we build or whether they're capabilities we partner with, is absolutely part of our commitment to the industry. And so, that language and that market lens is absolutely driving our focus through this year and into the years ahead. The decisions impacting business results will be the decisions that show up in our prioritization exercises.

Geographic and line of business specificity. As we look at this year, London market, we've had some great success last year in London market. We continue to drive success and investment in that space. Japan, I mentioned this is a market that takes deep, long range commitment to. We're really pleased with the development of the conversations we have in Japan. We've hired and appointed a new country manager in Japan. Her execution right now, in partnership with these critical brands is something we can build upon. Germany continues to be a critical insurance market for us, and Australia and New Zealand together are areas of content, regulatory content, and line of business content that we will continue to build in partnership with these customers, in partnership with this ecosystem.

So, the fundamental commitment to the market is to run the service at world class levels. We also have the commitment to get our customers to that destination in an increasingly predictable, rapid and cost effective manner. We spent the last year doing a lot of work in professional services. Let me go back two steps further. As we embarked upon this cloud journey, we put a ton of pressure on our professional services team to navigate the cloud journey to navigate the implementations. We also put a lot of pressure on our SI consultants. And through the last couple of years, very focused on last year, the ability to get these two functioning units working together. Guidewire Professional Services is an extremely strategic asset for Guidewire, has been for years, a source of innovation, a source of execution, a source of trust, and a source of continual refinement of the relationship with customers. That's never going to stop. Okay.

What we've done is created the opportunity and the models by which our Professional Services team and the consultants that Mike mentioned earlier, work together for improved output and effective delivery for our customers. This then gives us the opportunity as we think about Professional Services is how do we optimize the predictability of that business? How do we increase the scale in execution with our SI partners? And then how do we extract sources of innovation from that deep connection with the industry as we go through projects and as we go through tighter connection with SI's and bring in third party technology to integrate with us. These are all things that can be both sent out as service packs and as and mature as products inside our shop. This will continue to be an important conversation for us.

So, FY 2025, and frankly, I'll say the growth priorities for FY 2025 not all that different than what they were last year and not all that different than what they will be next year. But I'll hit a couple of points for you. Winning net new deals will always be a high calorie consumption thing for us. It will take priority because these are deals that, these are relationships that go on for 25, 30, 35 years and as we continue to mature our product and offerings, that we can count on that continuing beyond that timeframe. So, that is a critical moment in time. We've done well

on that. Accelerating the migration portfolio, last year was a good performance on the migration portfolio. As we look at the plans for this year, we get really intensive in our joint success planning with customers. Our business value proposition in shared business case modeling with customers is an investment we've made because we're getting deeper and deeper into the strategic planning cycle with our customers and increasing predictability of execution of these programs.

I mentioned [indiscernible] (00:41:58), but also the tooling around the code base, the integration base, and getting people to that cloud destination and through that first cloud update much more reliably or much more predictably, I should say. I'll also say that the number one reason why we've had success in the migration portfolio over the last year is referenceability. This is a very large industry that we serve, but it is also a very small industry. The connections of the individuals that have done core processing investments in the industry is very tight, and they talk a lot, and they also change companies a lot.

So our ability to continue to have that 100% success rate and/or referenceability gives us the opportunity to go into customers and have a very – a conversation that starts with trust, and starts with proof points that have already been experienced.

The third pillar is driving portfolio expansion. A large number of our customers have, but only one [indiscernible] (00:42:56) from us, ClaimCenter, PolicyCenter, BillingCenter. So it's a very natural evolution, which in the on-prem world was interesting, but in the SaaS modality is almost imperative. The ability to drive synergies across the estate in the SaaS service gives us a tremendous amount of leverage in those conversations. So driving both core product portfolio expansion, and emerging product portfolio expansion is absolutely critical to us. Analytics is on the rise for us. We're talking a lot about the decision I already talked about, the decisions that drive insurance. And marketplace continues to be something that has set strong foundation, and we're starting to layer in much more valuable conversations with customers on how to unlock the value of marketplace.

Accelerating international growth, country specific content, and brand, and region. I've probably exhausted that conversation, but I'm happy to talk to anybody at the at the cocktail hour or any other time about what we think about global expansion, why we think we're in a good position for that. But it's a tight partnership between the field functions, the sales function, the customer success function, and the product and engineering functions to get this right. Because there's a lot of things we can put out in the market. We have to put enough energy behind them to make sure that they land into the market and make sure that those stay on priority. They're constantly going to be competing for priority on timing of market impact.

And so, that gives a pretty good intro to me bringing Diego Devalle up on stage. Diego, as you all know, Chief Product Development officer at Guidewire has been a tremendous accelerant of our ability to get to this destination. He's been a phenomenal business partner to me. As we go through the natural tension of what our priority should be to unlock market value and also maintain engineering sustainability, which I usually lose all of those arguments with Diego because he's Italian. But he's been a great partner to me and I'm excited to hear what he tells you now because where we go next gets pretty cool from a product standpoint. Thank you all very much.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

Okay. Good morning. Since John made it such a nice introduction, I joined 6.5 years ago just to put things in perspective and since there is many of you that are new, and six months into the job, we made a decision to build a platform to run and to drive this transformation. One of the first decision was to call it Guidewire Cloud Platform, and as you could imagine, GCP was taking. And so then we came up with the great idea to throw a W, and so

since we're going to hit you with a bunch of acronyms going forward, GWCP [ph] stems from our (00:45:44) Guidewire Cloud Platform and is what we're going to talk about for a little while here.

We've been releasing since then 10 cloud releases with a bunch of feature, but I know that this crowd is way more interested into our efficiency rather than on featuring claims rather than in products – in PolicyCenter. So this is a slide that talks a little bit about the journey across the last two years. You will see a number of deployment going from 146,000 deployments to 286,000 deployments. You will see the number of environment that grows by around 5,000 environments. The reason for that is because a lot of the environment that we manage are the environment that we use for development itself. So while the deployment is really a result of customer using the system, a lot of the environment is basically our fabric from a development perspective, so it doesn't grow with the same rate.

Update, it was critical for us to make sure that all our customer were updating on the latest release and we, kind of, engineered a lot of that process to enable that to happen. And you can see that in the last year, the number of update that our customer made went from 44 updates to 147 updates. For those of you that were at Connection (sic) [Connections] (00:46:55) last year, we start to talk more extensively about what we call [ph] n minus 2 (00:47:00). We want to have all our customer in either the current release or at least in one of the last two release. And we are pretty close to that. 95% of our customer right now are running on [ph] n minus 2 (00:47:12).

Then the last couple of numbers are the one that of course we're all proud. I mean you will see the number of IS Cloud Customer, and Production Instance. This is because it takes time for customers to, sort of, go live. And then you're also, of course, seeing the \$1 million in subscription and support revenue. But I think the more interesting thing is the next two number. We've been able to do all this across the year in the last 24 months by basically, more efficiently, the cost of revenue went down in absolute value, not in percentage value, in absolute value.

And while we've been doing all this, we build a tremendous world class support organization around the world. We are 24/7 across the entire geographical location. You can see here a snapshot of number of cases that we deal per week. The average day to close, the percentage of meeting our SLO target, and a couple of other things.

So all that – how did we do all that? The first – few years ago, we made a decision to build Guidewire Cloud on top of AWS. We looked at all the service that were available to AWS. We realized that some of our customer, especially the largest customer, could go directly to AWS and start to assemble those service and build a solution themselves to move to the cloud themselves. But that was totally inefficient. There was a lot of things that they will have to do that were really repetitive and they will not add too much value to them. There were things like authentication. They all needed to build an authentication layer. They all need to build a configuration layer. So we wrapped all those things into a bunch of service. Those are our service, the ones that come with some of the interesting names that are all internal names. Of course, we're not marketing any of those names. So, Rebecca, don't worry, those are not external name. We just put them on for the, for the completeness.

But those are all our internal service that enable us to do containerization, that takes advantage of Kubernetes, that enable authentication, that take care of the provisioning, once you once you instantiate Guidewire Cloud, you don't need to know which kind of database is instantiated underneath, takes care of egress and ingress with an API gateway. So all that is what Guidewire Cloud platform enable and is what is being underneath enabling us to do the journey.

And on top of that, we are running our application, and here, for simplicity, we pick our top four application, PolicyCenter, BillingCenter, and ClaimCenter. And, and Mike was referring to our solution for Tier 4 – Tier 3 and Tier 4. And also InsuranceNow runs on top of Guidewire platform.

So, how did we manage to do all this? Predominantly, we managed to do all this by enabling self-service as much as possible and automation. This was a slide we showed in FY 2023 two years ago at Analyst Day. We were talking in terms of a lot of our [indiscernible] (00:50:18) cost going into head count, and that head count was going to support deployment per month. Back then, in 2021, we were supporting 40 deployment per month and we were projecting that in 2022 they were going – and in 2022, sorry, they were going to 90 deployment per month, and all those were done manually. So those were people that when the customer wanted to deploy something in production, it was raising a ticket. That ticket was taken by somebody within our infrastructure and support, and they were taking care of managing that.

And so we realized that the projection was going through the roof. As you could see in 2022 – 2023, we were projecting to do around 400 deployment per month. And so, it was clear that if we wanted to scale up, we needed to support that from a level of automation that we didn't have back then. And so this is where we are today. You can see that 2024 and 2025 these are calendar year not fiscal year. You can see that there is still an aspect of projection, but you can see that we were pretty much on the money, on the projection, but the super positive thing is that we can do all that with the level of automation across the entire platform.

This is a slide that shows everything that is part of GWCP from deployment, to automated build, to code repository, to database operation, and all those things combined together on GWCP is what this year enable us to achieve a 65% product gross margin. And we have going forward across the next 12 months, we are coming up with four more releases that are going to be heavily focused, still heavily focused around so service and efficiency. There is a lot of functionality still that are in the making right now that are coming across the next 12 months.

And the very interesting thing for us on this is it's very, very predictable because all the capability that becomes available for our customer, and then becomes visible from a financial standpoint down the road are capability that are already available in development right now. So every time that we kind of look at those things, our level of confidence from a development perspective is always very solid because we already have seen all those gain in our labs there is an aspect of rolling those capability across all our customer. And the more the customer we have, the more the rolling takes the time.

So, today we are at 65%. We are projecting the year at 68%, and we are – going forward in the next couple of numbers is a range between 73% and 75% that I'll let Jeff talk more extensively because otherwise on those things typically I trip a little bit, and I don't want to take the risk. So we spoke a little bit on all the investment on the efficiency, and everything that we've been able to do to get where we are from the point of view of building a world-class platform to run all our customer and but R&D is not only that. So what are the key initiatives of R&D going forward?

I would summarize that for the sake of simplicity to three. Number one is cloud migration. We have converted, give or take, around a third of our customer into the cloud. So we have 70% to go, that remain a main focus. Number two, is market expansion. And number three, is leveraging everything that we have been doing on this platform evolution to build new capability and start to build new solutions and new application that were unconceivable few years ago.

So from a cloud migration perspective we did few things. Number one, we made GWCP a little bit more configurable. There were customer that were asking us, can I have, I like what you're offering, but I need a slightly different flavor. I will like to do this in a slightly different way. Can I do this in a couple of steps rather than in one step? So with maturity, it comes to degrees of flexibility. And so now we got to a level of maturity that we can start to offer more flexibility. APD, for those of you that are a little bit more familiar with us, is being our capability to transform a definition of a product, an insurance product in a way that is totally code less or low code. And number three, we needed to auto generate all the cloud API into this transformation. So those three things are at the core of our story to go to our installed base and enable them to efficiently move to cloud.

In all transparency customer that, Mike said, we made a bet on the transformation. Some of the early adopter customer made a bet on us earlier on. And those that make a bet on us earlier on, in full transparency, they enjoyed a journey that was a little bit more complex than the journey that we are capable to offer right now. So, a big portion of the investment that is coming – that is – this year is going in the direction of continuing to make this easier, and easier, and easier. And also this is also way better received year-over-year. Our customer are coming to us and saying, yes, we want to move, make it a little bit easier, and we're going to move even faster than what we were envisioning.

Number two, is market expansion. This API-first approach, the separation between what we call the Guidewire layer, and the extension layer, enable us now for the first time to start to become really effective, and enable to us to give us scalability, to start to invest heavily on the key market. John talked about market expansion. This year, we are definitely focusing on London market. Actually, London market is something we started focusing last year. But this year, we are continuing, let's put it like that, on London market. But Japan, Germany, Australia, and New Zealand, now we start to have the capability not only to build those capability, but to build those capability on the platform and be able to update them in the same way as we update the platform continuously.

So this is a big portion of our investment this year. And if you want to see these first two category are really category that are critical for our success in execution during the year. But the one that developer are always more excited is building something new, is building something that is the future. If you go to engineers and you tell them that they need to work on a project that is a project to optimize something, or you tell them that you have to work on a project that is about building something new. The optimizing thing is always number two. What everybody gets always excited is about let's build something new.

And so, what we've been able to do, where we are today in the transformation of the platform. Few years ago, some of you asked me about this cloud transformation, and I said, is a gigantic opportunity to modernize. Remember that 60 – six years ago, a big portion of our development was spending time in maintenance, and you were spending time in maintenance because when you deliver software, self-manage, every customer has a different supportability matrix. You support multiple database, you support multiple application server, you combine all this into different flavor, and now you need to have an entire engineering team that test all this permutation.

Once you start to move to cloud, you can optimize that because you start to, kind of, have one flavor of that solution that is the best flavor. So you need to invest in making sure that all the customer stays on the latest and greatest. But once you are able to do that, now, you start to have engineers that can start to innovate faster at the faster cycle and deliver more value to our customer.

So where are we? We are in a position in which we have by far the three strongest application in the P&C industry, PolicyCenter, ClaimCenter, and BillingCenter. And across the year, what we've been able to do in this cloud transformation, we're being modularizing what we call core cloud service. For those of you last year at

Connection (sic) [Connections] (00:58:43), we talk about integration, rules, workflow, rating, and digital. This year we are adding AI and AI service. And now all those the combination of those two things enable us to build new capability, new capability like a new quoting solution that instead of requiring a full PolicyCenter, we can start to build quoting solution that will not require a full PolicyCenter. We are investing in new experience for claim adjuster. We are investing in new experience for underwriting submission. And we have a lot of new things coming in the analytics space.

All that, that was already in a very good space across the last couple of years has got the, sort of, a turbo boost in the last year with GenAI. What we've seen in the last year with GenAI is opening up an entire new world of possibility. And I would say that, the sort of, sometimes you need to be lucky. The luck that we got is that we started our transformation to cloud five years ago. So now we have we have a structure. We have our customer into a modern platform, and we can start to get advantage of that GenAI at the right time, and cascade down those capability, and that opportunity to our customer.

So the way that we're planning to do that is, as I said, we're plugging into our platform a generic AI service that is going to be a combination of LLM and machine learning that we're going to use selectively for different use case. You could have a use case that is a new claim adjuster, and a new claim adjuster is going to interact in a very different way compared to what you will think about a standard UI. Standard UI is very task oriented, right. You open up a screen, it has a gazillion number of field. You need to get accustomed to those number of field. The more that you're an adjuster, the more you know, I do this field and I tab through this three screen, I go to number three. And if you want to get the sort of status of where you are during the process, you need to know the application. Imagine that you query something and you just say, give me an update of the claim right now, and a screen generated in front of you and says, this claim, the status is this, those are the top four things, and this is the next activity that we're waiting for. And all that is a simple query in a UI that builds in front of you, kind of, [ph] automatically (01:01:20), that is a game changer.

Similar, we can talk about underwriting. Underwriting is being traditionally a very cumbersome process into which you needed to read and combine a lot of feeds. And once you get all the feeds together, at some point you can – at the end, you can decide, okay, I'm going to underwrite yes or no. But there is a lot of information for those of you that kind of more familiar for underwriting a loan and so on, and of course, the FICO score is a critical element, but there is a bunch of document that you upload to get that final that loan to come in. Imagine to do that with GenAI, you load all those document, and then, in a split of a second, there is something like yes, underwrite this policy, no problem, underwrite this loan, [indiscernible] (01:02:09).

So again, just to recap, great progress on the platform. We can run very efficiently, more than 150 customer base. We have an organization around the world that – show you that we are doing that at the cost profile that is even lower than last year. We are planning to not make any increase of investment in that organization also for FY 2025. So that number we're expecting to continue to go down from a product perspective. Bucket number one, cloud migration. Bucket number two, expanding in critical region Australia, New Zealand, Japan, Germany and London market. And bucket number three, starting to innovate, and start to, kind of, bring into the market new solution, leverage GenAI [indiscernible] (01:03:03) there are a lot of things that now we can start to build that on top of this platform would make us very efficient to build at the speed that our competitor probably will not be even close.

And with that, I will kick off the Q&A. I'll pass this back to you, Alex, thanks. Thank you.

QUESTION AND ANSWER SECTION

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

All right. We're right on time, so that's pretty impressive. We have about 20 minutes for Q&A here with Mike, John and Diego. What I would ask is that you just wait. We've got five mic runners here, oh three. Okay. You just make sure they get a chance to get to you before you ask your question. Okay. So start there.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey, thanks. Appreciate the – maybe it's bright up there, Mike. This is Michael Turrin with...

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, how are you doing?

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

...Wells Fargo Securities. Good. Appreciate the content. I think the TAM information is also always useful, but what might also be useful is have you go a layer deeper into the cloud side of the discussion and if there's some way for you to help us level-set how far the market is in evaluation, implementing cloud?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

You mean -

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

If you can contrast that versus last year? Yeah. Just looking at the overall – we have the market growth and the DWP looks healthy. But I'd love to get your perspective on what stage of the cloud journey the overall market is in based on what you're seeing and if that's different this year versus last year, if you're picking up inflection or anything you point to there.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Sure. Sure. And then John, you can chime in. I would say, when you say market, I just want to give you a perspective about how we think about it because net new, anybody that's going to come to market net new and say, I'd like to do a modernization of a legacy system and pick from one of the competitors that they'll evaluate, all these systems are cloud. So, the net new business that's kind of mainframe old system to modern system, it's going to land on cloud regardless of whether or not they choose Guidewire or not. Everybody's kind of in that boat now, which is a necessary great step for the industry. I think that the way we think about it is what's the propensity of our on-premise install base to move to cloud? At what pace do we believe that that will move and how much investment, you saw Diego said, we're investing to try to make that transition smoother, de-risk that transition,

make it more logical. The faster they can get to cloud, the more they're able to justify the additional expense and the program focus that's going to be necessary to do that leap.

The way I think about it is that it will, I mean, it's improving for sure. The more and more confidence we can create in our customer base that this is eventually where we're going to end up and it works, that's helpful for us. So, it's improving, but there is still – these are complicated decisions these companies make about what are their near-term priorities and when exactly are they going to slot that in.

The other thing that I think is important to call out is that we have begun to, in a partner, I would say, friendly way, describe for our customer base what they should expect from us more specifically as these – as our ability to support the on-premise versions of Guidewire goes away effectively. Like it's just not infinity that we can support this code base. And so, as we begin to have those conversations more specifically and with more detail as opposed to conceptually, then I think that helps probably accelerate that shift. So, I would say it's generally improving. But when we look at each year, we try to balance, here's our overall, call it, bookings objectives and how do we build up to that plan based on how much we can expect from migration and how can we expect net new. And honestly, it's improving, but nothing like dramatically shifted. Okay. I don't know, you want to add anything to that?

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

There's a country-specific region and country-specific element to it. On the migration bit, spot on. We're navigating certainly every day what are the different cultural requirements, the Nordics is cloud – SaaS first. And that's been a really good success footprint for us. As we look at Continental Europe, there are regulatory requirements that are emerging every day, so we've got a team very focused on that and we're working in tight partnership with our customers on that. So, the regulatory in Continental Europe is a conversation we're having in Japan. There's a definitive move towards the SaaS modality. What I think is materially different than maybe not last year, but two years ago is this clear distinction and understanding about SaaS as a destination rather than cloud as a destination. And I know that we could get into hours about that, but really more and more, if I think about the large customers that drive big parts of the market, the declaration that SaaS is a modality they want to be in, even if they were already kind of managing their own footprint on the cloud, they're starting to – that really has changed over the last two years. But those are the really long duration conversations with the large global carriers, where we're really getting in-depth planning together.

Q

Thank you very much. Mike, if I may build on that question, it seems like over the last few years, a number of large carriers have almost set out the roadmap, where they want to be in the next 10 years. So, just building on that question, do you feel like we're seeing acceleration in this S-curve? Do you think we're approaching that inflection point, where you will see a much more significant migration to the cloud?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

I always get this question, so I appreciate this, and I'm always hesitant to predict inflection points rather than describe what I really expect to happen is steady progression. Okay. We could see this, we could see a sort of more prompt shift to this transition. But what I expect will happen is just steady progression, honestly. It's not what I want. We work hard to create a sort of value proposition in landing on cloud. That makes sense now. But there's so many other factors when you get into the detail behind what is causing a particular company to make a

particular decision around that 10-year plan and what – how that all slots in. I just think generally, it's just steady. Like we're going to work through this over the next, I would say, hopefully less than a decade. But we're going to work through this over the next five to seven years and there will be steady improvement in that year over year over year.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

Can I add something?

A

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Sure. Of course.

A

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

And keep in mind that the larger the tier, the more the system they run. So, that is an important aspect, right. It is not just about, oh, we're going to move Guidewire and then a bunch of other things stays behind and so on. They need to make decisions that are way more synchronized across their entire portfolio. And so, that creates some kind of complexity the larger the tier in their execution and so on. So, that's what Mike said, it's more steady progression on step by step rather than there is a moment in time into which now that feature, that thing is going to change and so on and so forth.

A

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Go over there to Rishi.

A

Rishi Jaluria

Analyst, RBC Capital Markets LLC

Wonderful. Thanks. Rishi Jaluria, RBC. I want to dig a little bit deeper into kind of the platform potential with GWCP. Mike, you come from Salesforce. It's obviously a great case study in monetizing and building out a platform for others to build on. You have the Guidewire Marketplace today. It's mostly a lot of accelerators, templates, which is a great starting point. How do you think about the ability to let others, even ISVs, build out entire businesses on top of that and monetize that and is that something that could be potentially additive to the TAM? Thanks.

Q

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Yeah. I'm going to answer this quickly. And then I know Diego wants to give you a perspective on this. There's an immense opportunity for us. We, number one, have to execute very effectively on the transition of our customer base to cloud. We kind of have, you could say, a critical mass of cloud customers at this point, but you can clearly see that the benefits to marketplace value and platform value kind of go up more than linearly with the number of customers that are in production on cloud, right? In our business, this takes a while because the product – it takes a while to sell, takes a while for the products to go live. You can see the shape of the curve. We're going to get there and it's immense potential and a lot of the lessons we learned at Salesforce will be applied here. But Diego, I know you have a perspective, so why don't you get to tell him what you think?

A

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

A

Yeah. This is before I was mentioning engineer get excited about new stuff. These are sort of the stuff that get us very, very excited. I'll just give you two things to think about it. Number one, we build in an infrastructure and the platform that was thought for IS for InsuranceSuite. But it was built very generic. So, we created a system and a platform that could more efficiently enable moving things to cloud in a way that has a level of service and automation around that for a lot of the customer is perfect because they will not be interested in going to AWS on their own and get all this thing and build it on their self.

The second thing is that it's very difficult to sell platform on its own, it's way more easier to position platform after [indiscernible] (01:13:09) InsuranceSuite. Right. And so a lot of our customers are running a lot of things. They're running a lot of application around in their ecosystem. They're running a lot of things. And so, this is exactly the direction in which we are thinking of how we could package the learning, make sure that the priority remain what we just discussed. But we are really, really excited about the opportunity that the platform itself could offer.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

And always balanced and controlled by the commitments we make to our customers every day because the ability to run the service as it is today and get our customers to that destination, get the industry to that destination, expands that value. So, it's a constant conversation about pace of change versus depth of commitment and depth of commitment always wins out.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Okay. Dylan Becker, William Blair. Mike and John, maybe for you guys, you talked about the durability of the end market and we've seen premium growth in the last 12, 18 months. But it feels like structurally, that's stepping up off of a consistent GDP basis, maybe GDP plus a couple points here or there. Can you talk about what that unlocks from an ecosystem opportunity, how that incentivizes customers to maybe think differently in a competitive environment where they're trying to gain more share and do so more profitably? And then for Diego, if we talk about kind of that market growth as a potential catalyst, how much of a function of that from migration is to capture that share versus maybe what continues to need to be built out from a product perspective?

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

Yeah. Sure. First on the backdrop of the ability to take and make rate in the market on the first part of the question. What we're seeing is certainly in personal lines, in midmarket and specialty commercial ability to take rate and large commercial is suppressing a little bit right now. But, I think the – does it create an impetus for them to make decisions? Here's what I – here's the way I think about it is, what it does is it creates an environment within which the distance between winners and losers is increasing. So, if the market condition says you can take rate and be more dynamic in market placement of your product, that's great. But if your underlying operating systems and decision making environment and data environment doesn't allow you to do that effectively, it actually creates a wider gap. So, the risk – for those that – actually let's just put the positive on it. For those that can create a condition of putting adverse selection conditions on their competitors, that is actually increasing. So, what it does is, it creates an environment which, by those that are ready to move, can move faster and put – and gain more market share. Those that haven't put the conditions in place are going to find them – find a widening gap there.

I think that creates a good condition for us to insert ourselves in the conversation and say, okay, what – how do you unlock value at the top end and how do you compete if you haven't made the investments that you need to make? There is another condition to this, which I think is I really enjoy having this conversation with our customers, which is, what does the potential consolidation of companies look like, those that are running on platforms, book values are going to be quite high in the coming quarters, let's say. So, I think there's going to be an interesting environment, by which the industry sees some shakeup. We simply want to be the ones that the industry standardizes on to unlock both the potential and catch up those that haven't been able to get there.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

A

And your question was how much we're investing in the migration versus how much we are moving in migration or supporting the migration versus how much we are reserving into the new capability. Is that what you were asking?

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Yeah, effectively that's the opportunity and that's not the catalyst to incentive customers to move over. You've obviously built out the infrastructure. Is it [indiscernible] (01:16:52)? What still has to happen from a product perspective?

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

A

So, early in the journey, it was always a matter of, do you have this, do you have this, do you have this? Right? If you make an analogy with, if you want a burger, you want fries. If you cannot afford the fries, now it's kind of missing something. But now we are at the point where we have all the pieces. We are – there is nothing, we don't engage in any conversation in which you don't have this and call me back when you have this. We are investing a little bit in some situation because the customer will need to re-implement some aspect and so they are saying, oh, I move. But then that re-implementation is costly, help me out. And so then, we've been trying to automate and engineer some aspect of making better implementation and that adoption more efficient and cheaper. That's what I was referring before, the customer that moved on the early days. In some case, the feature was not there, so no fries. And in some case, there was like more, more, more expensive to sort of adopt. Now the list of feature is there. The issue is more to simplify and incentivize their adoption to minimize some cost [indiscernible] (01:18:06), in some cases just because we have we have modernized, for example, the integration and they are running the old integration and they're saying, oh, I want to run on the cloud, but I also want to have the new integration, help me out to convert my integration into the new format of the integration. So, that is where kind of portion of that investment is going.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Hey, guys. Ken Wong from Oppenheimer. In one of your earlier slides, Mike, you showed the update to DWP. I think it was \$720 billion, if I recall correctly, last year, it was \$600 billion. One, I want to make sure that's an apples-to-apples number because that is a very meaningful step up. And then two, to the extent that DWP under management has grown that much, how much of that is the premium environment that we're seeing versus maybe share gains, which you guys have talked about seeing incremental, competitive wins in recent quarters?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, I'm going to table the answer to your question until we do the final Q&A, but we'll look it up on the next slide exactly. I'll get you a clearer answer to this. Like Certainly, DWP under management has increased, just based on selling more and also the adjustments that we've made throughout the quarter to what the carriers that our existing customers are reporting to us and that factors into what we charge. So we'll get – I'll parse the slides so that we can get your specific answer at the final Q&A. But thanks for the question.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Now we got one back there.

Matthew David van Vliet

Analyst, BTIG LLC

Q

Yeah, thanks, Matt VanVliet from BTIG. I guess, if we make the assumption that the majority of the industry goes to the cloud and GWCP has all of the pieces that you've talked about, I guess, John, from your perspective, as you look at the TAM of I think you said \$9 billion is still out there for new customer wins. How much is needed to be added to the team to address that, whether it's from direct sellers or sales support or other factors of internal investment? And then where do the partners step in relative to maybe where they've been in the past to what we look to the future to help also win that? How much more of the share of the burden do they take in a joint go-to market?

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

That's a good question. So, if I think about the sales team, the commission-based sales team and the selling team that David Laker has ownership of, we're out of size right now where the pace has been nice, we've added some capacity this year. We really added more advisory capacity and customer success management capacity and kind of customer account management capacity because as you look at that pie, the more that the traditional sales motion works its way through that opportunity, unlocking what's outside of the traditional sales motion is much more of a long-range planning exercise. So, industry advisory capabilities, customer success management and customer account management, strategic planning capabilities is really the investment that we're making in for, let's call it, that now kind of two-and-a-half, three-plus year planning cycle with those customers and most of them, most of those sit in the Tier 2 and Tier 1 category. So, that motion is important.

As we go forward, as we look at the motion on the net new deals in the market and the traditional sales cycle, as we think about that coming to, certainly we'll add sales capacity in the right regions where it makes sense. Right now, it's a pretty measured growth within that commission-based selling for us. As we look at the motions in different countries, so Japan, Germany, much more of an account management and long-range planning motion than it is for, say, North America or the Nordics.

The only other thing I'll add, Matt, is that as we think about all of what's out there, there are – a large percentage of that opportunity is really deeply embedded in legacy core systems. So, rooting that out over time with customers, it's an arduous journey. So, we'll continue to go after that. The question is whether or not that's a natural motion that comes to market or whether that's a motion that you have to go deeper into those customers. And your point on the SIs, not only the SIs, but the strategic advisors out there, the McKinseys, the BCGs, are helping all of those customers navigate their future. As we've gotten through the cloud journey and more and more of the SIs understand the design elements of what we're going towards, we see them certainly more engaging more in the C-suite conversation about the right destination. So, that's been a helpful motion for us. We expect to see more of that.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Okay, great. I think we'll call it there and take a 10-minute break and then we'll come back and hear from our customers.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

All right. Thanks, guys. Thank you.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

Thank you.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

Thank you.

[Break] 01:22:49- 01:23:13)

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

All right. We're good. Okay. So, as people make their way in, I'm now going to turn it over to Christina Colby and she's going to run the Q&A with her customers here. You want to come up?

Yeah, that's good.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

Thank you so much for coming back. My name is Christina Colby again, Chief Customer Officer. And I truly get the coolest part of the day, to be able to introduce you to this phenomenal panel that we have of our customers joining us. And I'm thrilled to be able to share this terrific group of individuals who represent both the business and technology side of our customer base.

So, first and foremost, we have Pat Nails, who is the Chief Claims Officer at Arch Insurance. We also have Tatjana Lalkovic, who is the Chief Technology Officer at Definity. And last but definitely not least, we have Owen Williams, who is the Group CIO at Ascot Group. So, thank you all so much for joining today. I'm really, really grateful for that. I will get the conversation started with maybe about 20 minutes of questions or so and then leaving 20 minutes at the end for those folks in the room to be able to ask some questions as well. So, without further ado, let me first hand it over to Pat. Thank you so much for being here. Would you mind telling us a little bit more about yourself and about Arch, please?

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

Sure. So, as Christina said, my name's Pat Nails. I'm the Chief Claims Officer at Arch for Arch Insurance North America. Been at Arch for 20 years, Chief Claims Officer for the last six years. For those of you who don't know, Arch Insurance is a specialty insurance company. We wrote last year in 2023, about \$5.5 billion of gross written premium. We have not released our earnings yet for this quarter. That will be on October 30. So I'll simply say we continue to grow for this year.

Our relationship to Guidewire is we are a brand-new client. We are four months away from flipping the switch on our first release for Guidewire ClaimCenter. I'm in a room full of analysts, so I feel almost compelled to disclose this, almost a little embarrassed though. I'm the Chief Claims Officer. I've never actually adjusted a client in my life. I was Arch's Chief Legal Officer. I am a corporate lawyer, but about six years ago, when our Chief Claims Officer left, our CEO at the time asked me to move over and run the claims department.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

And you're doing a phenomenal job of it, even though you haven't adjusted the claim. I was surprised that the team hasn't taken you aside and asked you to handle one.

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

That would be very scary.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

Well, hopefully with the ease of functionality and ClaimCenter, that will be all that easier to do that. Perfect. Well, Tatjana, would you mind talking a little bit about Definity and the role that you have innovating there?

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

Thank you. Tatjana Lalkovic, Chief Technology Officer at Definity in Canada. I've been with Definity almost five years. Prior to that, I was leading business and technology transformations in banking and insurance. A little bit about Definity, 153-year-old company. In 2021, we were first P&C in Canada to de-mutualize. We had second largest IPO in history of Canada.

Parent company to four brands. One of them is direct-to-consumer, two, our broker. And we also have pet insurance product. We have been Guidewire customer for now 10 years. I just chug that because it felt a long time, but apparently time flies when you have fun. We built a digital platform, the digital offering, where you're able to real-time do an online bind. And then we digitized our broker platform, largely automating underwriting and improving connectivity and experience to our brokers and then in 2022, we were the first customer and carrier in Canada to move the whole InsuranceSuite to cloud. So, that's our journey.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

It's fantastic and just to, again, underscore one of the things that Tatjana said that I think is so critical. This process of demutualization and becoming publicly traded I think is a really interesting aspect to your story and how that helps to continue to drive innovation and I'll come back to that, which is terrific. And Owen over to you, if you wouldn't mind sharing a little bit about your role at Ascot Group.

Owen Williams

Group Chief Information Officer, Ascot Group

Sure. Good afternoon, everyone. My name is Owen Williams, I'm the Group Chief Information Officer at Ascot, been at Ascot for about 18 months now, but most of my career is actually building technology solutions in the insurance space. So, worked at companies like Everest, Chubb and Hamilton. Been a longstanding Guidewire company at these different places. A little bit about Ascot is that we are a global specialty lines insurer. We have geographic concentrations in London, Bermuda and the US and we view technology as being a key differentiator in terms of our business strategy on a go-forward basis and so there's a heavy focus on making sure that we're not just risk-centric, but also technology-centric in our journey.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

Thank you. And it's exciting we have a phenomenal partnership with Ascot, but I think one of the things that is very unique about Owen's insights here, as he mentioned, is the breadth of experience that he's had with Guidewire Solutions over time. So, we will definitely hit on that more. Let's see, Tatjana, I'll turn to you first. I liked – Diego was saying in his portion that we had some earlier customers who enjoyed the journey with us and I think Definity definitely falls in that category being that you were one of the early adopters moving – doing that migration from on-prem to cloud. Would you mind sharing a little bit about what that process has been like? Not to mention the fact that you've been live on Guidewire Cloud for a considerable period of time now. So, could you share a little bit about what that whole process has been like?

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

Well, like Diego, I was six months in the company when we decided to move to cloud, and it was driven by getting ready to go IPO. And we had a very, very keen plan to grow, and since 2022 we were growing in – our commitment was upper single digits to 10%, which we were exceeding for the past – since 2020. So, growth, as well as innovation was our key focus areas. And so we couldn't have done that without really moving to cloud. From the scalability perspective, from agility, and innovation, it just made sense. So, we were first adopters. I think what the difference working with Guidewire is, is that partnership and getting into that journey together, and solving those problems as we moved along together. And I think that that made a lot of difference for us.

In terms of how we felt differently, from the scale perspective, being able to seamlessly grow without committing substantial capacity upfront in terms of infrastructure, addressing spike in claims when you have these catastrophic events like it's happening in Florida, we differentiate by providing an exceptional service. And if you're going to provide exceptional service, when you're on-prem, when you get a huge spike, you can't service your customers. So the moments that really matter. And so that was a big difference.

And incidentally, just after we moved claims, we had one of those events that – and we were able to service our customers, and maintain our levels of service like we expect. So that was a big moment for us. But then, we also – allowed us to deploy new capabilities to our business with speed. It's allowed actually for my team to focus on delivering business solutions as opposed to, and leave the infrastructure to cloud providers and Diego. And finally, allowed us to introduce new products and services. Mike has mentioned, we have launched a very unique user based insurance offering where we do quarterly adjustments based on the driving behavior of our customers.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

Well, we're honored to be part of all of the great things that you're doing in the Canadian market. So thank you so much for your support. Owen, if you don't mind, I'd like to move to you, and to touch upon all of this experience that you've been describing. So you have seen Guidewire over a number of companies over a number of years. Your experience most recently with Ascot and the initiatives, how would you describe the Guidewire of today versus the Guidewire of a few years ago?

Owen Williams

Group Chief Information Officer, Ascot Group

Well, I think I mean, through the long lens of time, it is very different, right. I mean, if you think about the traditional model of implementing platforms is that you go through this process of procuring hardware, installing it, configuring it, setting it up, going through security. A lot of that is heavy lifting work while you're not focused on doing transformation work that you want to do. And so, one thing I see as a key differentiator is really how the platforms get set up and put in place very early on for consumption. And I'm an ever skeptic on these things. And when I hear it's going to be quick, the proof is in the pudding, and the proof is definitely there.

The other thing around infrastructure is not worrying about managing scaling the infrastructure, right, you're working with a partner that can help you with that. The other piece was, I think for me, the most notable piece is that I've done a lot of Guidewire upgrades. These upgrades are difficult, right. They tend to be mini projects, sometimes six months, sometimes longer. And historically, when you do an upgrade cycle, what you end up doing is you're essentially halting transformational work. I can tell you the team that put together a plan saying that the update was going to take a weekend, and I was like there's no way, I'm just very skeptical, I'm calling people, how is this going to happen? And it literally was a weekend, I got in a Monday, and they confirmed that it was done, and the team was very productive that the second day. So that, to me, is a big game changer, for us, and helps me, and the team, focus on transforming the organization [indiscernible] (01:34:06) business strategy rather than worrying about the weight of the infrastructure and doing updates.

The third piece, I would tell you and this is for me is an emerging piece, is really leveraging the ecosystem Guidewire community ecosystem where as we look to enhance the value for investment in Guidewire, how do we kind of leverage the vendor partners who are in the ecosystem in a much more effective way? And that's been very helpful.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's great to hear. And we see, I mean, with so much insurtech investments, the richness of the solution ecosystem is really critical to be able to tap into new capabilities, but also not hopefully to have to do as much discovery as your – on your own to be able to find those validated solutions straight away.

Owen Williams

Group Chief Information Officer, Ascot Group

Yeah, absolutely. I mean, I'll just quickly add to that. I mean, traditionally, if you think about it, you have to find a vendor, figure out how they work with Guidewire, if they've done it before, integrate them, I mean, there's a lot of consumption of cycles as opposed to just knowing whether or not they have pre-existing software that actually works for the product.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's terrific. Thank you. And so, Pat, for you, one of the things that we were speaking about, and I know I've spoken to you a number of times, is the fact that it's not frequent that an organization goes through a transformation of this sort. And so, from your perspective, and especially with your business lens, what has that process been like of actually going to ClaimCenter Cloud? What are some of the things that you've learned from it? What are some of the things that, sort of, weigh on your mind still with four months to go? How would you characterize that?

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

Yeah, so I think I got to give some context as to the process through which we went, which I don't think is that unusual to choose Guidewire. I've told Christina and the group here at Guidewire, that we basically did a beauty pageant. We did an RFP, we invited Guidewire, we invited the other usual suspects. Once we got the response to the RFP, we had them all come in. We had two people – we had two groups in two different rooms. We brought adjusters in from all our different lines of business. They saw a demo. We had the tech people in the room with the Guidewire tech people talking about that. Once we did that first round, we narrowed it down and then we had them come in again.

And ultimately we made our decision based upon four different factors. Guidewire scored the highest the user experience from our adjusters. They scored the highest from the technical perspective. But the other two factors are factors you've already heard about. Owen and Christina were talking about it. Mike talked about it. The ecosystem was incredibly important to us because this was part of a larger transformation. We had come up with a strategy at Arch, 19 things we wanted to do, some didn't have anything to do with a claims system. Some we were building internally. Some involved third parties. But the claims system was foundational to those second to group. So the Guidewire ecosystem was incredibly valuable to us in implementing the remainder of our strategy which will be ongoing once we do the implementation.

The last one you heard Diego talk about, I don't know if any of us really knows what a claims adjuster's job is going to look like five years from now. But I do know it's going to look a lot different. And I know, AI is going to be a big part of it. And we felt that Guidewire was the best partner for us. The thing I really learned though through this whole process is change management. I got lawyers. I managed a group of lawyers for six years or seven years, and I thought they were the hardest people to change. And then I met claims adjusters. Okay. And look, they even understand that Guidewire is a much better system, but they're so used to doing things in the way that they have done them. They're so used to the workarounds that maybe even individually they've created in doing their job.

So, I know, Christina advised me very early on, as much change management as you're doing, you're probably not doing enough. So we have really focused on that going forward. I think the other thing I've learned, and we were just talking about this earlier today. When we control everything, and when I say that, when it's Arch, and Guidewire controls everything, our implementation process has been running, I'm not going to say flawlessly because you always run into problems. But, for example, Arch does a lot of business with TPAs, and trying to integrate the TPAs into this, and the data issues that we have there has been a real challenge. Maybe along with the change management, one of the biggest challenges.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's true. And I think it's you were mentioning it's about 40 third party administrators that you work with somewhere is somewhere in that range, which is really quite considerable.

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

It's about 40 third party administrators. Now, look, the big three out there, there's Gallagher Bassett, Sedgwick/York, Broadspire, and they can work with you on the data, but we work with a lot of smaller TPAs who quite frankly aren't as sophisticated. And you even run into problems with the feeds coming from GB, and Sedgwick/York, and so on. And so that's been one of our bigger challenges.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

And it really I think that speaks to the complexity for those who are not necessarily familiar with the insurance value chain of all of the different parties that get involved in this right. We talk about it sometimes from a system landscape, but there are so many different stakeholders and roles to line up with. That is often one of the things that becomes very difficult to manage in terms of the dependencies of a program.

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

The dependencies are the things that keep me awake today.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

Yeah.

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

And we're on track. And again, if we control everything, I would sleep well at night, but it's the dependencies that concern me moving forward.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

Okay, excellent. But you have been so thorough and thoughtful in trying to and managing all of those. And including, and I think it's the experience from the whole panel of really that right balance to strike between your own resources, Guidewire resources, and then the depth of expertise from consulting partners, and really being able to tap into each of those, the critical parts of a program. But I think also, as you think about consuming updates, and really starting to impart more continuous change as well.

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

It is a village that's doing this. And so we have our own internal group. And one of the pieces of advice that we got, not only from Guidewire, but from our strategic implementation partners, we pull people off their desks. So we pull adjusters from property, from general liability, from our financial lines. And their sole job is they work in a group to implement Guidewire. Now their other job is to communicate outward. They're going back to their groups and saying, does this make sense? Does this work? So you've got that group, you've got Guidewire, who you're working with, and then we have our strategic implementation partner who I'm not joking, they've become some of

my best friends because I'm spending so much time with them. And look, we address everything from what they really allow you to do, because this is the first and probably only time I'm ever going to do this. Okay.

I've no experience in implementing a claims system. What your strategic implementation partners allow you to do? What Guidewire does for you is they tell you about the stuff around the corner. The problem that might be coming, and it's everything from interpersonal relationships within the implementation group we've had to deal with at times because they're working very closely together to technical issues, to dependencies. So that village, for lack of a better word, is absolutely critical as part of the process.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's fantastic. Thank you. And obviously, we're expecting very good things about the business outcomes that will be delivered soon so that you can get back to normal claims operation, whatever that might be. Tatjana, would you mind maybe elaborating a little bit more on how have you seen the Guidewire platform help your organization relate to think about how best to extract business value? Because I think that that's always sort of a hard balance. There's a lot of exciting technical things, but really driving that through to the business outcomes that matter. Could you maybe share a couple examples about that?

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

Sure. Well, maybe to help Pat with outcomes and claims, we actually had a large contingent of claims adjusters, who could not wait for us to move to Guidewire because they had a better experience. And so it was a – it was a – change management was a little bit easier. We had significant improvements in our indemnity and customer experience as we implemented claims. Our first-notice-of-loss – digital first-notice-of-loss adoption is industry leading, so tremendous impact in the claims space. In terms of delivering value, the agility is obviously really, really important. We went from having a release once a month to now doing it biweekly and with some blue/green deployments, we are doing some interim deployments. So that means that we can respond to market changes much faster for our business and deliver the value which is really significant.

And even setting up the development environments, having improvement in 10 times significant. Right after we migrated to cloud, and we continued to accumulate the benefits, we have been able to, from the performance perspective, respond to broker quote and improve that by 30%, and that's really increased the broker quotes right away at that time 4%, you can translate that in tangible business value. And we continue to track that because we don't believe cloud is once and done, and you realize the benefits. It's an ongoing benefits that you can reap from just deploying new capabilities. So that was very important being a digital insurer as well.

Prior to cloud, we would have to take the platform down for about five hours to six hours to deploy new capabilities. We have now reduced that 75%. So, you can imagine if you're a digital 24/7 online [indiscernible] (01:44:25), you cannot have your customers not access your platform for six hours. Huge, huge business benefit. And directly translates into incremental revenue. So an ability to tap into AI, generative AI and everything that you're planning to do in that space as well as marketplace, huge improvement to our innovation capabilities as our focus is to be a digital leader in insurance in Canada.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's fantastic. I liked it so much that you referred to the things that we're planning to do, Because that to me, has been one of the things that's been really remarkable about our cloud journey is the transparency that we're

able to share around our roadmap. And the joint planning then that we really start to do with our customers. Because it's not just waiting to see the features that may come with the next major release, instead, it's this ongoing dialogue.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

And that's very, very important. Your willingness to listen to what your customer's needs and adjusting that roadmap to focus on those things is really important for ongoing partnership.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's fantastic. We're thrilled to be part of those conversations, which is really which is really key. So, Owen, then, going to you, you talked a lot about the example of a weekend update, which I love and the sense of disbelief that you had around that. One of the things that I've noticed a lot is the hesitation still within our customers to really think about how rapidly business features can be adopted off the back of any sort of technical updates. And so I'm curious how you work with your business colleagues really to help to lay out a plan of the business objectives that you want to achieve and how you use that to prioritize activities not only in the program, but really starting to think about how to make that part of really a continuous improvement mindset. Could you talk a little bit about how those aspects of culture have started to change around cloud at Ascot?

Owen Williams

Group Chief Information Officer, Ascot Group

Sure. I think the biggest sea change is that really start doing a lot of forward planning that you wouldn't normally do. So thinking about a backlog of changes, and thinking about how I'm going to think about where the product is going to go from today, versus next year, versus the year after, right. And so, in that, to me, that's a technology supportive of business led exercise where you really have to have individuals inside the organization thinking about where they want to see that platform. And to me that's a big difference or a big sea change. And so, inside our organization, [ph] our claims function (01:47:07), for example, there's someone [ph] who's, that's their full time job to (01:47:05) think about where the platform is going. How do we think about new features? Not that we can only implement, but also we can adopt from vendors, and think about a roadmap, and sequencing, and then we working closely with them to think about delivery and partnering in terms of getting those outcomes that we desire.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's great. And hopefully to make them really truly as demonstrable as early as possible.

Owen Williams

Group Chief Information Officer, Ascot Group

Absolutely.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's great. And Pat, I also wanted to ask you, I know there's a story that you've showed me, because I asked recently in hindsight, if there was anything that you might have done differently about your program. And I think

one of the things that you talked about was a lot of the process improvement work that you did going into the program...

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

Yeah.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

...and then seeing the richness in ClaimCenter, and how your mindset shifted on that. Would you mind just sharing about that a little bit?

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

Yeah. So, when I came over from legal to run the claims department, we initially sat down with the senior leadership team in claims, we, kind of, had a – it was a broad strategy, it wasn't as detailed what we had now. And it was simple. It was people, process, technology, and we knew we had to move some people into different roles. And then, we really focused on the process for a while, for a couple of years, and then we certainly improved our process. But I made a mistake and it's on me. I would have brought technology to bear earlier. Okay. Because your process has to be married to your technology, and it didn't cause us huge problems, but we did have to change some things. So as I thought about it, that was on me. I should have – it should have been people, process, and technology, should have been the second thing. Now, it doesn't...

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

I think you're being a bit hard on yourself because you did bring it into the mix...

[indiscernible] (01:48:41).

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

...I brought it into the mix and honestly, I'm also, and I know Tatjana and Owen understand this, what I've been able to convince senior management to make the investment a year earlier, a year-and-a-half earlier, two years earlier, there is that very practical aspect of it. But at the end of the day, I think your process has to mirror the technology. And I would have bought the technology – I would have brought the technology to the table earlier than I did.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's great. Well, we're thrilled to be part of it. And I think to your point, sometimes you have to just go through some of the process improvement to show what's possible in order to then really substantiate a strong business case, to show how much further you can even go with technology.

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

You have to be able to say to your senior management, we've already done all of this. We've gone as far as we can with process.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

Yeah.

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

So, you absolutely need to do some of it. But there's an area where it becomes great, where you need to bring the technology to bear.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

That's great. Well, we're happy to be able to contribute to the stages going forward. I think we've got about 20 minutes left now. We're going to pass the microphones around the room and we would love to be able to answer some questions.

QUESTION AND ANSWER SECTION

Q

Patrick, you touched loosely on kind of gen AI, I guess, less specific to what's being adopted. But I guess I'd love to get a sense from you, the group whether or not that's a priority within insurance, like how much of the regulatory environment, the specific vertical environment potentially kind of limits the ability to adopt. And then second, I think across other industries, we consistently hear that the path to gen AI is to get your data in a common place. And that typically is cloud. Like how much – basically how true is, is that particular line of thinking?

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

So that's a great question. And I think there were two questions in there. So, I'll do both of them. Let me do the first one. You mentioned the regulatory issues with gen AI, which I think are, coming from the legal side, are going to be fairly significant. And I love my insurance regulators, but they're not ahead of the curve, let's be very honest. So, I think the path the industry has to take, and I know the way we're thinking about it at Arch is, go slow on actual underwriting, and actual claims adjusting, go fast on process when it comes to gen AI. Because the process part of it is not going to, I don't think regulators are going to care as much about it. So, for example, if you can, I'll give a simple example which Tatjana talked about. If you can implement GenAI with your FNOL process to move claims in much quicker, get them to the right place. You're benefiting the customer there. I don't think the regulators are going to care about it. So I think that's going to be very key.

A

I think GenAI, this is my personal opinion. I've seen some stuff where the investigative part of claims adjusting, GenAI is going to play a big part of that. It's going to take information, and it's going to condense it, and the adjusters are going to be there to consume the information, and still do the actual claims adjusting. So it kind of fits into go fast on process, go slow on the underwriting, and the claims adjusting, because I just don't know where the regulators will be. And then, yes, at least at Arch, we are working on better organizing our data because that's the starting point. I think Tatjana and Owen probably can also speak to that.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

Yeah. We did consolidate our data in cloud. That did give us opportunity to leverage AI more effectively in generative AI as it emerged. I think there's a lot of opportunities to use generative AI in a responsible way that will benefit the insurance industry. We've done a lot of work in call centers. There's a lot of opportunity. Diego spoke about summarizing the content and knowledge for underwriter adjusters. Everywhere where you spend a lot of time pulling together compliance data, external things to form an opinion. We have leaned into it, and we are seeing some quantifiable results. So, I think you need to start, and you can start with the responsible applications as the technology evolves, and more protection around that and compliance evolves. But I feel you got to move there because there are some really quantifiable benefits that you can get out of it.

Owen Williams

Group Chief Information Officer, Ascot Group

A

Yeah. I would echo the same comments. I mean, I think the data strategy, and what you do with your data, and how you structure becomes key. But I think looking beyond that, the way I think about generative AI/machine learning technology is that it's ultimately a productivity multiplier, right. And so, I think about the entire business process, everything from underwriting triage or risk triaging, claims segmentation, anything that runs [indiscernible] (01:53:52) organization down to invoice payments, leveraging that technology to accelerate and augment what humans do.

And so, that's been a kind of focus for us in terms of how we think about the technology. But I think the key piece, which is actually a well-founded question, is kind of the regulatory implications and ethical implications on technology. So, at Ascot, one of the things that we stood up very early on is AI governance board, kind of, looking at these things at scale, and understanding what the implications are. But it's a fast changing landscape. What's relevant around the technology six months ago is not going to be relevant six months from now. So you really have to be very close to it and just track where the drift or the direction of the industry is going to go.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

Also, we have a question in the back.

Q

You all spoke to a lot of the benefits improvements you've seen since you adopted GWCP. And I'm curious if you could put your hats back on to when you made the initial decision, kind of, knowing what you know now, how much faster might you have moved in deciding to adopt Guidewire Cloud just, Owen, you made a comment about the weekend upgrade, I don't know how much that was a factor. And in your decision when you were ready to move to the cloud. But I'm curious if you could have moved faster knowing, kind of, the maturity of GWCP today.

Owen Williams

Group Chief Information Officer, Ascot Group

A

Well, I mean, it's – the way I would describe it is you got to think about the Guidewire offering as one piece of a transformation program you're doing right. And so, typically what you have to solve for is, if you look at it, people process technology, but okay, how am I going to execute this program? What the value proposition to the organization is? It isn't just the technology itself. Right. Because at the end of the day, the technology is there to give me some big business benefit. And so, on that one data point alone, would I move faster? No. But I think on the overall data point of saying, look, some of the traditional things that you're normally worried about in a transformation program, such as scaling the infrastructure, such as managing the infrastructure, those are certainly acceleration points to consider. But again, what I anchor back to is that these are transformation programs, transforming the business in a material way and giving us scale. So, the technology is one part of that decision matrix, so to speak.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

I think I couldn't have gone faster. I mean, as Guidewire has, started on that journey, we were pretty much part of that. No regrets still. I think it gives us now opportunity to really innovate and not have to worry about that. We knew we have to be there. And so, the sooner you do that, the more time now you have to focus on doing business innovation, creating business value. So, as much as there was a lot of learning through the journey and then as you know, one of the learnings is to be clear that migration to cloud is a journey and maturity evolves over time. I think it was worth it because we got better for it and we started to adopt some of the – and again generating benefits earlier and we knew we will have to eventually get there, so.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

And Tatjana, because you were one of the earlier movers and also completed that InsuranceSuite migration, I think, in about a year, if I'm not...

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

Yeah.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

...mistaken. Not only just as a migration, but actually incorporating additional capabilities as part of it too. So...

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

Yes.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

...you really had a great balance between propelling forward on to GWCP, but also showing real value to the business throughout.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

And that's so important for business because it will resonate with you. You can't go in and say, I'm going to close myself for a year and you get nothing out of it. You have to show ongoing value and track those benefits and reflect them to your business. And we continue to show that and we continue to build out in our story and our results as we move forward. Like Owen said, I mean, it's great to just reiterate that maybe four years ago this would have been a huge upgrade, big investment interruption to the business. And now we end up new releases from Guidewire, and it's non-event, like you said Owen, and that's great for our business.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

Any other questions? I was expecting harder hitting questions. I had them prepared for the ones that, you know, we may have to put aside. Okay. Well, I will ask a couple more. So, we can talk to all about the importance of having a really good SI partner. What are some of the characteristics that you think are important about choosing a good SI partner? And we're talking about a little bit before there's some skill, there's some matchmaking, so I guess some art and science to it. But if maybe so, Owen you've – because you've gone through that process a few times. What would you say are the real characteristics of choosing your – a strong SI partner?

Owen Williams

Group Chief Information Officer, Ascot Group

A

Sure. It's interesting, right? I think because I've used different ones at different firms, and for me, it always boils down to it's kind of cultural fit, cultural fit, cultural fit. I mean, it is so important. I can't understate that. If the SI partner isn't aligned with you in terms of how you operate as a business and how you interact, then the programs are going to be much more difficult to execute on. And so, the key things I look at is what is the SI's approach to interacting with us on a program, what skills I bring to bear? Where are the gaps that I have in my own institution that I need to fill and think about feeling relative to the SI partner? And the selection isn't always based on price. A lot of it is can they execute? Short answer is yes, but are they a good fit for what we're trying to do as an institution? And the reason why I bring that up and just kind of add to that is I've implemented Guidewire at a startup where no revenue, no technology, different SI partner, and we've implemented Guidewire at a large insurance company, very mature, different SI partner. Ascot different SI partner. And it has to be the right fit for what you're trying to do.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

So, that's something that means a lot to me personally, given that our relationship with consulting partners is part of my organization. We talked about obviously, the scale of more than 25,000 trained resources. But to me, it really shows up in terms of the optionality that our customers have, that you know that you can choose the right partner for the right purpose, and have a lot of different alternatives in that. So, that's terrific.

Owen Williams

Group Chief Information Officer, Ascot Group

A

I think it's interesting because I think that's actually a differentiating thing as I think about other software vendors that I've dealt with in the past, because a lot of vendors, the implementation path is you have to use their system integration function that lives with inside the organization and that gives you limited choice, not just during the implementation, but also from maintenance perspective. Having a diverse landscape of partners certainly can help a lot especially when you can use a different form of implementation, you can use a different form of maintenance. So, it does provide a tremendous amount of flexibility from a customer perspective.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

That's great. Any other questions from the room? I'll keep going. What are some of the things that you'd like to see us do that we haven't delivered so far either big term items, shorter-term capabilities?

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

I'm leaning into more business innovation, accelerating AI, and I'm very excited about the service that you're now weaving into your product. I think that's going to be very, very meaningful. Pairing that up with everything that Guidewire has so far is going to be really a game changer.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

We're really excited about that. I mean, it kind of – it goes back to some of the comments from before. So whether you're bringing your own large language models to bear, whether it's some of the capabilities that we're building, including one that we had an opportunity, in fact, to pilot with Ascot, those are the things that are going to change the way that people work, right?

Patrick K. Nails

Chief Claims Officer, Arch Insurance North America, Arch Insurance Group Inc.

A

Yeah. I would agree with Tatjana that we need to work, we need to continue to work together on artificial intelligence. Now, I'm a little in the weeds right now also because we're in the middle of implementation. And obviously the TPAs, I've already mentioned, how do we work with you to maybe help us on that and that isn't necessarily a criticism of Guidewire. It's probably more a criticism of the TPAs than anything else. As a specialty insurer of the stuff that we've run into, to be perfectly honest with you, it's small because you got to remember something, yeah, on any given day we're dealing, we have a cyber unit. We're dealing with ransomware claims, we're dealing with hurricane claims. With Hurricane Milton, we're dealing with security class actions. So, as we work with our different business units, we have sometimes found things. One that comes to mind is tracking aggregates, which we need to work with you to maybe help us do or help work with Guidewire to do a little better. So, it's really small stuff that we've run across being a specialty insurer, not small to our adjusters. But when I look at the big picture, but I think working together with you guys in AI, I think continuing to build that ecosystem that you have is incredibly important as we look for better ways to do things with other partners.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

That's great. I mean, it's really everything that you're describing speaks to the complexity of the industry overall, but specifically the complexity of specialty lines and how we're also seeing E&S as a segment advance as well. Owen, I know you've been vocal to us for a while about, different things that we've listened and put in place, which I love. So, maybe a crystal ball and tell us what's next?

Owen Williams

Group Chief Information Officer, Ascot Group

A

I think for me, it's pushing beyond the boundaries of the core, right. So, I think about having a really great core system. When I think about what's going to make our institution a great one is when we have really great core systems at scale and then surrounded with an ecosystem of technologies that allows me to essentially really focus on transforming the business differently. And what does that really mean? It means looking beyond just a

roadmap, right. I think I had some really great conversations with you and your team over the last several months about leveraging some generative AI technology. Right. And that was a really great partnership to kind of engage with and I think that's where the future is really engaging, okay. Guidewire a great – you have a great platform product. Excellent. Now I need to move beyond because that platform is allowing me to move beyond. I couldn't have those conversations without having good platform.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

I really loved today you had on the slides, business outcomes and focus on that. I think that's really kind of summarizes what I'm also hoping to see. And I think your team, Christina, from the customer success perspective is really understanding what is going to be meaningful to us as a customer and tying that back to the business outcomes that you have in your strategy. So, that's exciting.

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

Yeah, that's been a critical thing for us, because it's not something that you just measure at a point in time. It's something that you watch and continue to evolve over time as well. And so, I think that ongoing collaboration becomes a very important thing. And one I completely agree with you, and I think it was evidenced a lot in some of the materials that you saw earlier. It's not only about the importance of the core, it's about what the core unlocks then for the rest of your business opportunities. So with that, we are thrilled to have all three of you on stage. Thank you so much for joining us. I anticipate that the hard questions are just going to come over cocktails when you've worn them down and they have a glass of wine in their hands. So, thank you all so much for joining us.

Just to let you know, we're going to do a quick reset on the stage. So couple of minutes and we will be back with more. So thanks, everyone.

Owen Williams

Group Chief Information Officer, Ascot Group

Thank you.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

Thank you.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

All right. Thank you. [indiscernible] (02:23:37) conference here. Good. So, I will, at this point, invite Jeff up.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

All right. Thank you. Thank you. Thrilled to be here. Thank you so much for coming out. I'm Jeff Cooper, I'm the CFO of Guidewire. And I wanted to congratulate Ken Wong for picking out the typo that I planted in my slides very late last night. But the direct written premium should have been around \$670 billion, not \$720 billion. So, that was a good catch. So we'll get that corrected before the slides get uploaded. Many of you know, I started my career in

investment banking. And when you were a junior investment banker, you have nightmares about doing a big presentation and having a slide being wrong when your boss is presenting it at a really critical time. So, thank you for helping me relive that moment.

So, I joined Guidewire seven years ago. I was the VP of Finance, when I first joined Guidewire, moved into the CFO role about four years ago and it's been the honor of my career to help Guidewire manage through a cloud transition. And I'm just thrilled with the progress that we've made and really excited about what the future holds and the potential that we have. So, we'll jump right in.

So, on the key financial highlights, we have durable ARR growth that's supported by accelerating cloud leadership. So, what does that mean? We have really long, [indiscernible] (02:08:02), meaningful customer relationships that drive this durable ARR growth that is critical to how you all think about the investment opportunity in Guidewire. We have a best-in-class churn profile. Our customers make long-term commitments to a very important system that they rely on Guidewire to provide and that creates a very healthy retention rate and some of the best ARR retention rates in enterprise software. Visible cloud gross margin expansion, leveraging platform investments. So, you all know that this has been a huge focus of ours, the work that our engineering team has done to unlock the potential of Guidewire Cloud Platform and to start to really see that show through on the financial statements has been very exciting for us to see and there's kind of more room as we continue to move forward and we're working hard at this point in time – I think we're all very excited about the growth potential that exists at Guidewire and we're also thrilled to be able to demonstrate operating expense discipline, continue to show margin expansion and so finding that balance and I think we're doing a pretty good job balancing those two vectors.

And so all of this equates to a pretty exciting point in time in the Guidewire story. We talked about this exciting profitability inflection point at last year's Analyst Day and it continues to be a theme this year. One of the things that I was thrilled about on our Q4 earnings call was the ability to talk about 19% fully ramped ARR growth, but balancing that with 20% cash flow from operations margins. So, that was tremendous to see.

Okay. This slide is a repeat. I've done this slide a number of times, but as we went through and started to plan for this cloud transition, we knew that we had three existential risks that we had to navigate. And I like to frame it in a pretty simple way, is this can we build it? Can we sell it? Can we scale it? So, the first one is, can we build this cloud platform to solve this mission-critical use case for our customers? It's a really hard technical problem. I think Diego did a great job walking through some of the things that he's focused on, but it's just a massive amount of complexity and I'm blown away by what the team has been able to accomplish in rolling out Guidewire Cloud Platform.

Can we sell it? We were the market leader on-prem and with market leaderships come certain benefits and our thesis all along was that in the cloud domain, market leadership is going to matter even more than it matters on-prem. It's a very consequential decision to select the core system vendor. It's an even more consequential decision if that core system vendor is going to run that core service as a service and so market leadership is very important to us and proving out that we would be the market leader in the cloud domain has also been very important to us and John talked a lot about this and talked about some of our win rates, so we're thrilled with the progress we're seeing on our ability to continue to sell into the marketplace and then third, demonstrating the efficiency, demonstrating that we have built, as Mike said, a software company that can deliver best-in-class vertical SaaS margins is also something that we're very focused on.

And so you kind of think about those three things that we had to navigate through and how it manifests on this slide, which is non-GAAP operating margin. I love this slide because this slide demonstrates the big commitment

we made at the beginning of the journey to invest in the platform, but also the execution that we delivered on to transition out of that investment phase and into a phase where we can demonstrate meaningful profitability.

Okay. I'll talk a little bit about growth drivers and both Mike, John talked about this at some level, but kind of the way I think about the key growth drivers of the business, there's a variety of different levers that we have in front of us and foundationally, you're hearing us talk a lot about our profitability, the margin expansion. But what really gets us excited is the ability to continue to grow and drive growth into the business.

And so, first, we have this opportunity, I think most of you are aware that we still have 170-plus on-premise customers. We have this opportunity to migrate them to our cloud. In doing so, there is an ARR uplift associated with that migration. We've been very focused on this and I know you all have heard us talk about this for some time. We also have the opportunity to continue to just do what we do day in and day out, which is modernize this industry. There's still a significant amount of direct written premium that runs on mainframe based systems; that is our opportunity set to just continue to drive modernization and a lot of that is going to be in the form of net new customers. So, we're very focused on driving that.

John, Diego and Mike all talked about there being significant potential outside of North America. We have seen North America adopt cloud faster to date, but there is a lot of potential in EMEA and APAC. And we feel very strongly that those markets are going to get there. So, we're working hard to make sure that we're ready.

We have a lot of ancillary products that we can sell through. So, the way we think about this opportunity is through migrating our customers, through winning net new customers, through kind of further penetrating international markets, we can instantiate a meaningful amount of the industry on a common cloud platform and that creates a very strategic asset as we start rolling out new products in the portfolio that we can then sell through to that installed base. And then last but not least, we're very excited about the potential to build our very robust ecosystem on top of our cloud platform, the marketplace. It's going to take a while for that to really develop. We have go out and win the cloud deals. Then we have to implement the cloud deals and they have to be adopted. But we're very focused on creating the right environment where that will thrive in the future and we think that that will be an exciting growth opportunity for us as we look ahead.

Okay. So, durable ARR growth is clearly being driven by the cloud. On this slide, the yellow bar represents the cloud. So, we've seen cloud drive our overall ARR growth. And then within cloud, cloud ARR growing 41% on a CAGR basis over the last five years and InsuranceSuite Cloud being the key driver of just overall Cloud ARR. So, the core suite really driving the growth and that was representing a 53% five-year CAGR.

This is a view into how we think about the components of ARR. So, I thought it would be helpful to spend a little bit of time on this and we've shared this in the past as well. We have very strong visibility into ARR, especially on an annual basis. It can be a little bit hard to predict when a deal is going to close on a quarterly basis, but kind of over the duration of the year, we have very strong visibility. It's really driven by two factors.

One, we talked about low churn. That is super helpful in building an ARR model. So, low churn helps a lot. And then we also benefit from long [ph] durated (02:15:39) multiyear contracts that have ramping elements of them. So as you know, we sell large deals that have many cases ramps over multiple years and that creates an element of what we call ARR backlog.

And so on this slide, how the ARR backlog evolved during the cloud transition was pretty interesting. If you go back to FY 2021 and then to FY 2022, you can see some healthy growth in ARR backlog between FY 2021 and FY 2022. And then in FY 2023 and FY 2024, you see that phenomenon somewhat reverse itself. We had a lot of

early cloud demand as we had a cohort of customers that wanted to go cloud, maybe before we were even ready to take them to the cloud and then we transitioned into COVID and we saw a little bit of a pattern where people were willing to start small, but not make large commitments. Thankfully, that phenomena has reversed itself. And so, if you look at the expectation for FY 2025, you see pretty meaningful acceleration of the overall ARR backlog. This is the view into the model and how we think about the setting the guidance for FY 2025. But you see some pretty healthy adjustment there as that ARR backlog grows and we have a really strong visibility into that number. So, that helps a lot with the overall visibility.

The only other thing I'd call out on this slide is, if you look over the last four years, we've had about a negative \$19 million impact associated with FX. We adjust our ARR at the end of each year for FX. Okay. So, building on the ramp construct and what we talked about on the prior slide, this is an update. We presented this slide last year and this is an update that includes the FY 2024 cohort, but this looks at all of the new InsuranceSuite Cloud deals that were signed in a particular year each year as a cohort and how the fee schedule for that cohort ramped over a five-year period. It's pretty common for us to have five-year initial terms with a ramping component over those first five years.

And there's a lot of interesting things that you can kind of tease out of this chart and I'm sure there'll probably be questions about this chart. But the thing that really jumps off the page is the acceleration that we saw with the FY 2023 cohort and then the acceleration that we saw with the FY 2024 cohort. FY 2023 was a little bit unique in that in year three, we saw kind of a material tick-up. FY 2024 is much more linear, kind of more consistent with historical patterns. But the end-state was very, very healthy. And from my perspective, I am always most focused on what is that ending number, that ending number in a cloud contract is super important to how I think about customer lifetime value. It sets up the basis for ongoing renewals, which hopefully will be 10, 20, 30 years as we build these very durable relationships with our customers.

This slide talks a little bit about ARR and why ARR has been our foundational metric as we work through this cloud transition and ARR is deviated looking backwards pretty materially from software revenue. And software revenue in this context is described as subscription and support revenue, plus license revenue. We started the cloud transition in the midst of an adoption of ASC 606 that created some upfront revenue recognition dynamics. And you can kind of see this on the chart where software revenue was running ahead of ARR. Software revenue growth was running ahead of ARR growth for a period of time. Then software revenue was lagging as some of those multiyear contracts that were sold earlier didn't then have the renewal until you kind of go through the initial term. But we're now coming out into a place where it should be more consistent and aligned. Most of our on-prem customers are on annual renewals.

And so we're not – we don't expect to see these deviations although you never know and ASC 606 is still there. So ARR will continue to be the right metric for us and it normalizes for these different revenue patterns. But I think it's been interesting to update this slide over the years. We always knew that eventually these two lines would go to a more consistent place and we're starting to see that happen.

So, this next slide is also something that we've done over the years and it's been fun to watch the slide progress and evolve in a way that we all hoped that it would. But what you see on here is we really broke out the COGS of subscription and support into two buckets. One is head count associated cost and one is other costs and what you see very early in the cloud transition, the head count cost dwarfed the kind of infrastructure costs and the other elements of the cost of goods sold and that was very intentional. We invested in a cloud operations function. We've built out that function ahead of the demand curve. The platform wasn't kind of where it is today and it required a little bit more head count intervention. Diego has talked about this and we wanted to make sure we invested ahead of the demand curve because we knew how critical all of those early customers were. And any

failure of a cloud program at that point in time of the cloud transition would have been potentially catastrophic. Right? So, we had to make sure that we delivered very high customer success. And we did that at the time by making sure that we had enough butts in seats to – if there's anything go wrong, we can throw people at a problem. And then thankfully, I think the team has done an amazing job using automation to ultimately get us to the place that we want to be.

And if you look in FY 2025, we're now expecting head count costs to be a little bit lower than the overall infrastructure costs and that trend will continue as we look ahead to the future. Okay. So this is a view of the framework that many of you who followed us for a long period of time are pretty comfortable with and we had, as we went through this cloud transition, a near-term outlook and a longer term outlook. The intention was to help you understand and help track progress as we manage through this cloud transition. So our FY 2025 guidance is now kind of replacing that near-term outlook. And we have put numbers on that longer-term outlook of FY 2028. I think most of you have modelled us crossing that threshold in FY 2028. So, I would say that is when we expect to cross \$1.5 billion. I'm not calling FY 2028 a \$1.5 billion target, it's just that's when we will expect across that level and that's when we'll expect to hit these different margin targets that you see on the page.

They haven't changed – like those targets have been pretty consistent as we've worked through this transition. And as we update our model and do analysis, it still feels like those are the right targets for us over the near term. Obviously, as we look at the FY 2025 targets, we're running a little bit ahead on gross margin. We ran ahead on cash flow margin, but we still feel like the targets that we established for FY 2028 are the right targets for Guidewire. But we've also been pretty clear over the years that that's not end state, right. We don't think that those are our end state margins. And you hear me and Mike and others talk about best-in-class SaaS margins and kind of what does that mean to us?

And so from my perspective, I think about that as my 80/40 plan, right? What does it mean to be a best-in-class SaaS software company in a vertical? And what is that margin profile and how does that translate to Guidewire? And it's executing to what we see as 80% subscription and support gross margin, a 40% operating margin on non-GAAP basis and ultimately driving stock-based compensation as a percent of revenue, down below 10%. And this is how we think about it. I would say this is kind of longer, longer term, almost terminal style margins for you all. But I thought it would be helpful just to come out and say, hey, when we use those words, this is what we're thinking about.

And in order to get there, it's – I think you've seen a lot in the progression of the platform and we kind of have to keep doing a lot of the same stuff, right? I think we have to continue to drive incremental margins, driving them above 80%. As long as we're driving those above 80%, you know we're on the right path. We have to maintain OpEx discipline. We think a lot about kind of ARR growth and how that relates to OpEx spend. And I think as we meaningfully grow ARR faster than OpEx, you can monitor that and kind of say, hey, they're on the right track, they're moving towards the 80/40 plan. And then we're always going to be conscious that this is a framework and how we're thinking about ultimately executing to these targets. But there might be times when we say, hey, this is something we need to invest in and we certainly reserve the right to invest in things that will drive future growth. But this is, as we look at the kind of the current potential, the platform that we've built, we're kind of excited about marching towards these longer term targets.

Quickly on the balance sheet, we benefit from a very strong balance sheet, just over \$1.1 billion in cash and cash equivalents as of the end of the year. I take very seriously kind of how we manage this balance sheet and how we think about creating the right opportunity for future investments. So, we have a convert that's coming due in March of this year. We certainly have the ability to pay that down in cash. We are also evaluating other opportunities as we think about maximizing balance sheet flexibility, but we're really thrilled with the kind of the strength of our

balance sheet and it feels like a very good time for us given where we are in the cloud transition, to start thinking a little bit more about inorganic opportunities, although we've always been pretty disciplined and you should expect us to remain pretty disciplined as we evaluate those opportunities.

Exiting FY 2025, as the cash generation continues to accrue, we'll probably look at ways to put in place more systematic stock repurchases as the way of mitigating dilution associated with stock repurchases or stock-based compensation. So just to recap, it's been an amazing year. I'm really proud of what we as a company have been able to build at Guidewire and we're thrilled about kind of where we stand and the potential that we have looking ahead. I will tick very quickly through the GAAP to non-GAAP reconciliations and then we will organize the chairs up here and bring the executive team up for a pretty fulsome Q&A. Thank you.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

All right. We're in the final step here, final stage. And we've got mic runners. I know gentlemen back there would like – Matt, right there. And then I'll just say for the folks that are on Zoom, we will try to take a few questions from you and just make sure you submitted in the Q&A app.

QUESTION AND ANSWER SECTION

Matthew David van Vliet

Analyst, BTIG LLC

Hello. Okay. Sorry. All right. Matt VanVliet from BTIG.

Q

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Hey, there.

A

Matthew David van Vliet

Analyst, BTIG LLC

Thank you for doing this today, and the question. Jeff, I – feel like we have to at least ask, is there any sort of ARR target related to these long-term margins that you think is sort of until you get there, there's still relatively high investments in the business to scale there? And whether you answer that or not, maybe more importantly, what are their levels of sort of step function investments do you envision as you continue to scale the business? Or should we think about this as a little more linear? If growth remains relatively consistent, we get sort of an annual cadence of improvements to get there.

Q

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Yeah. I mean, that's the right way to think about it. I think we've – the big investments around instantiating the cloud platform are behind us. We have a very large investment in our R&D function. There may be certain areas that, this year we're spending at a little bit of an elevated rate to invest in things like GenAI and some of the product capabilities that we talked about. But there shouldn't be any sort of step function type of investments. And with respect to, when we get to that target model framework, I don't want to put an ARR number on it. I do think – the way I think about it is, is what's the growth potential and if we're still growing mid-teens or faster than mid-teens, then we're going to be investing a little bit more and as if the growth starts to taper down into low double-

A

digits or high single-digits, then certainly you would expect to see us flex the margins more. And so, that's generally how I think about it. But we've kind of provided a lot of commentary around near-term and long term targets to help investors understand the transition, kind of want to get more to this target model framework as we look ahead.

Matthew David van Vliet

Analyst, BTIG LLC

Q

Thanks, guys. Jeff, maybe sticking on the financial side, that cohort chart obviously very helpful as we think about the fiscal 2024 mix there and the step up on a kind of steady state basis. Could you walk us through what are the drivers? Is that better willingness on just kind of cloud platform maturation where you get a share of premium? Is that more end-to-end full suite adoption? Is that broader consolidation across all lines of business? Just going to help us think about that if possible?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. Maybe I'll comment briefly and then I'll let John comment. But, what shows up on that slide from a financial perspective is the willingness to make bigger commitments. And so, we are seeing a willingness to make some of the bigger commitments that includes, whether that's just pulling in more lines rather than starting with one line and seeing how it goes. We have examples of, a migration for one module, then deciding to pull in policy center and billing center. So, there's a variety of different ways that it shows up, but we're seeing more than one of those types of modalities. But John, do you want...

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

Yeah. If you look at it just from the context of FY 2023 versus the FY 2024 cohort, which I think is just zeroing in on that. In the fiscal year context, it's quite stark, but if you were to go back another quarter, you'd start to see some of those dynamics at the end of the prior year, where the conversation around migration opened up, as Jeff mentioned, opened up the opportunity for expansion of other lines and a more fulsome commitment to what that – what the overall relationship is. That's been a nice effect.

Rishi Jaluria

Analyst, RBC Capital Markets LLC

Q

Hi. Rishi Jaluria, RBC. Thanks so much for the day. This is super helpful. Maybe sticking to the target model both kind of midterm and long-term. Piece number one. Jeff, would you consider disclosing or sharing any sort of a kind of ARR ex-migrations number just to help kind of give a little bit more clarity around what's giving you confidence in that duration of growth. And then on the SBC number, you are talking about it coming down a couple points in the next couple of years and some 10% over the long-term. What's the plan you reign in SBC. Is there a change in kind of compensation philosophy mix of cash versus stock, maybe you could walk us through? That'd be helpful. Thank you.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. So, on the – maybe I'll start on the SBC side. There's not – we're not – there's not a major shift in how we're thinking about managing stock based compensation. Some of this is just a reflection of our company getting larger and operating expenses not growing as fast as ARR and that flowing through the model. So, that's the biggest thing. There has been some kind of reevaluation of certain roles and kind of adjusting salaries up and kind of removing out of stock based compensation. But that's – I would say that's a smaller piece of the overall

component of what's driving our ability to continue to move ahead. I think one of the things that we had when we were in the midst of the cloud transition at the height of kind of the COVID bubble, where it was super competitive for cloud talent, there was some higher than normal grants. And the way it works through the models, it takes about four years to flow through the model. And so, that should kind of roll off of our cohort next year, and that also helps on the stock-based compensation side. And your first question, remind me again your first question?

Rishi Jaluria

Analyst, RBC Capital Markets LLC

ARR ex-migrations?

Q

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Ex-migrations. Yeah, I don't think we're not going to break that out. I mean, migrations is a big part of how we think about the opportunity. One of the things that I'm really excited about is, is seeing migrations drive new modernizations, and we're seeing that occur. I think early in, the way I talk about it, early in the transition, if you looked at sales activity, it was migration-heavy and then now it's much more balanced. So, as we look at new sales activity, I expect it to be pretty balanced. And then, as we get a couple more years out, I actually expect migrations to slow down a little bit, and the net new to really be larger, but I don't think we're going to break out any specific numbers on that.

A

Aaron Kimson

Analyst, Citizens JMP Securities LLC

Aaron Kimson [indiscernible] (02:34:54).

Q

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Yeah, yeah, yeah. You're good.

A

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

You're good.

A

Aaron Kimson

Analyst, Citizens JMP Securities LLC

There we go. Aaron Kimson, Citizens JMP. Thanks for the question. On the cumulative DWP benefits you've been seeing, how should we think about the number of contracts you have where the true-ups at the end of some five year deals rather than annually? And is that tier 1 fully contemplated in the long-term guidance or it could have proved to be conservative on the true-ups?

Q

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

So, we have a variety of different ways that true-ups flow through our contractual frameworks. And so, it's not uncommon for true-ups to be held to the first renewal. It's also lots of cases where we capture true-ups along the way. I think this dynamic as part of our business is a powerful part of our business. And I wouldn't say it's considered in how we think about our outlook and how we think about our numbers. I wouldn't say that we haven't kind of modeled that, that what we've seen is, is – because the way it flows through these contractual frameworks

A

where some of them are delayed. It's also not uncommon for a customer in an initial contract period to buy a little bit more direct-written premium than they're currently managing. And so, it may take a few years to hit certain contractual thresholds.

And so, you have – you don't really see it hit all in one year. It creates this staggered effect. So, we've seen a tailwind from true-ups. We talked about 2 percentage points on the Q4 earnings call, and I expect that to be a bit more durable. I expect it to slow down a little bit off of what we experienced in FY 2024, but we expect that to be a bit more durable and that is embedded into our outlook.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Ken Wong from Oppenheimer. Mike or John, a question on just perhaps pricing. I think in the past when you guys started this cloud transition, you guys used maybe perhaps more attractive pricing to get customers on board. I think there's been perhaps some noise that we've heard that maybe you guys are starting to now look at pricing as something that perhaps benefits Guidewire a little bit. Now that reference ability is out there? Can you guys talk about how you guys might apply pricing to your customer base?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, sure. So, it's something we think quite a lot about, we're very, very careful with it just because the contracts, the relationships are so long, they're pretty complicated. If you think about some of the answers Jeff just gave to the structures related to DWP and true-ups. You know, I want to price the product fairly for the value that we're delivering, and especially if you think about the differentiated value we're delivering to the market. And I think that it's appropriate for us to share in some of that differentiated value. So yeah, we are paying closer attention to that. I also think we're adding a lot of value into the products – incremental value that goes way beyond just what you get directly. But if you think about some of the answers you heard from our customers on the panel about the ecosystem and the investments we're making there. So, it's fair to say that there's a focus on it. But I would caution everybody that we do operate in a competitive space you know that, that what was the word that was – that the evaluation that we go through on to win the...

Christina Colby

Chief Customer Officer, Guidewire Software, Inc.

A

The beauty pageant.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

...the beauty pageant. Yeah, excuse me, the beauty pageant doesn't it feel exactly like that often when we're in the room knowing that our competitors are in the other room. But every single one of these things is competed and we're going to work really hard to justify a premium price point and I hope and expect that to improve, but also I expect you would hear from our customers and Guidewire is delivering a lot more value every single cycle, on every single release. So, that's basically how I would say we think about pricing.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Hey, Jeff, I was wondering if you could just speak to cash conversion and the free cash flow dynamics of the business.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Yeah.

A

Ken Wong

Analyst, Oppenheimer & Co., Inc.

We have the targets. They're strong. We have a longer target now. But you've been outperforming on cash flow conversion more recently, particularly in fiscal 2024. So, maybe you can just help level set what's driven the free cash flow performance? Is that tied to ramps that might still roll through the model over the next few years? And just how to think about the overall progression on that?

Q

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Yeah. It's a good question and thank you for asking it because one of the things about the higher than expected or higher than modeled cash conversion cycle we're in is, we're going to be a cash taxpayer a little bit faster than we originally modeled. And so, that is actually having a bigger impact on FY 2028 and kind of those targets. But it all kind of nets out to roughly the same place, but that – there is a bigger cash tax impact on kind of how I think about those cash flow targets out there.

A

Cash flow for us has been difficult to model given the amount of collections that we have kind of at the end of the – at the end of each fiscal year. So, kind of as we've been going through this transition, candidly, we've built a little bit more conservatism in our cash flow modeling. And we're now getting more and more confidence and kind of the manifestation of the billings acceleration and how that's flowing through the model. So, we're seeing some upside this year and next year, and that's flow through the model in a pretty material way. It's also kind of complex how you think through these types of frameworks and how they roll through the income statement with this until they are component and deferred revenue component, but the deals being larger, kind of how the commitments being bigger, certainly gives us more visibility into those ramps and the cash conversion cycle. That's been pretty helpful.

I think the collections, last year in Q4 collections was very high. And I don't have that type of collections efficiency modeled into FY 2025 or FY 2026. But it all kind of nets out on a relatively short-term basis. But that was a part of the model that kind of surprised us a little bit going. It's always a little bit nerve wracking to set guidance on that number, given how much of the cash is expected to be collected in the last five days of our fiscal year and historically, we've tried to build a little bit more conservatism in that number.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Okay. I can take one from Zoom while we find someone there. We have another question from Zoom. A bit tangential to the one that Rishi asked around growth drivers. But John, over the next 18 months, where is the lowest hanging fruit on net new in migration, geo, commercial tier 1 and tier 2? How do you think about that?

A

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

On – wait on net new and migration geo and what was the other one?

A

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Well, you can list whatever you want? Where is the low-hanging fruit?

A

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Geo, commercial?

A

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

Oh, where's the low-hanging fruit across those like, Jesus. We only have 37 minutes left in this Q&A. So, I think the most efficient pattern for us is always going to be expansion of our relationship with our existing customers. Our motion towards that is getting more effective, getting more efficient. And as I mentioned earlier, our ability to be part of the fabric of the strategic planning motions of our customers is absolutely critical for us. I think that that's always going to be, I don't want ever to call low-hanging fruit, but the direct path of no regrets activity forever.

A

The next piece is the market has a certain amount of momentum of deals that naturally come to market, and our ability to continue to win, to win those deals is going to be the next most no regrets motion that we position for invest in and make sure we have the right market coverage for. Outside of those, the global players, the Asia-Pac and European components of our local – of our large global relationships is really important for us.

I'll never call that a low-hanging fruit, but it's critically important for us to line up all of those entities to support what is really a strong brand to brand relationship, and so, that's maybe a 10-year, 15-year, 20-year journey. So we're working really hard to make sure we go through all of those entity components of the large global carriers.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

That's right. Great.

A

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Right back here.

A

Q

On the growth vector chart you gave Jeff, the last two were, I think, data and analytics and then marketplace in terms of longer term growth drivers. Just curious, if you can speak to the timeline of when those start to drive growth, whether that impacts FY 2028 at all, as well as what investments we're making to support that growth going forward?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Yeah. I mean, the data and analytics wedge of that chart was not just data and analytics, it's the product portfolio and some of the things that we're investing in that both Diego and John talked about, would include kind of some of the country layer content. So, that's meaningful for us right now. I mean, that is this year investment focus, but

A

we have a pretty robust product set to support that. We want to see that accelerate, right. And as we kind of get more of our customers on the cloud, it creates a good sell through environment for us.

The marketplace, Mike, you might want to opine on kind of how long you think it'll take for that to materialize. We do have revenue producing partners today, and I think the potential really exists there as we grow a meaningful part of the industry on our cloud platform for us to accelerate that. But that hasn't been the emphasis for us. Like the emphasis for us has been kind of winning in the core, developing relationships and monetize, you have to be a little bit careful by how you think about the monetization side of that. So, anyway.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, I would just say I want to – we do have a couple revenue generating partnerships right now, so that's not – it is not a line that's at zero, and at some point will become non-zero. It's greater than zero today. So, you can think about growing it, but I really think about you got to have a critical mass of customers.

You got to have a critical mass of partners and with respect to the monetization of a marketplace, you want to think about why Guidewire monetizing it is a good thing for the ecosystem. You don't want to monetize it prematurely or to the detriment of the other parties in the ecosystem. You want to create a circumstance in which everybody recognizes that our component of that monetization is beneficial to the success of the partners and the success of the customers and the whole thing spins faster because of an economic structure that's like I said, beneficial to every party.

And if you do that prematurely, I think people avoid the marketplace. They think that it's just not what you want to participate in. And so, we've got work to do. Like I said, like these things take a long time in this industry to take hold. It takes us a while to sell, takes us a while for the implementation to be successful. It takes a while post implementation from the customer to start to think about what are the other components that they want to add to that implementation.

I suppose it's a bit frustrating because you're like, I wish this would all go faster, but we're setting up all the components here for this to be a very, very important part of the company in the long-term. And like 10-year timeframe is how I think about it. So, as long as we keep all that going, I think that I really see that as an important part of the ARR and revenue story at the company, but it's going to take some time.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

A

I'll add just one thing, there is also a technology aspect on that because you want to be in a situation in which the partner has kind of, I would not say zero initial investment cost but it's not like that you need to become an expert on your platform and you need to do a long investment before they can harvest some value on it, right? So, we discussed a lot about API first and transforming all our implementation of an API-first model.

Of course, the more the customer we add, the more the customer running this API first. The more you can start to see partners that are going to get an opportunity to build an application or build an extension that works on top of our platform that has kind of very low initial investment, make it available on the marketplace, and once that will start to take traction, that will take some time. That is also there.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. There's – we could talk about if somebody is really interested in this at a break, but there's a lot of layers that you can add to the value you are providing partners and the value you're there for flowing through to customers when you think about a marketplace.

So, a company like us, we can say, hey, we have an API, and then you can package an application, you can support that packaged application, you can update and run that application, you can scale that application, you can help the partners sell that application. And so, every single time you're adding more value, you can monetize it, right. You should be getting some monetization from the value you're providing.

So, as we move forward in time, as the number of customers on the platform increases, as the layers of the platform improve, the ability for us to create revenue from that dynamic improves. And we have all that's kind of in our sites, let's say, but it will take time for it to evolve.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

One in the back here.

A

Q

Sort of related to the previous question. As you look out 10 years and what the platform has done, this first five and you've had some modern competitive wins. Have these recent developments changed your view of where you think the competitive landscape ends? Meaning, does this go from sort of really competitive to a, you probably wouldn't want to say this, but a winner take most type of market because that sort of development flywheel plus marketplace and all of that?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Well, look, I think we have a very good core system for billing, for claims, for policy. I think it does a job very, very well. And you could quibble with, is it, when was it built and how is it built? And nothing's perfect. Ours is very, very good. It does the job. I'm very happy, Diego, and just did a phenomenal job creating an architecture that marries an ability to leverage Amazon Web services and all the components that he had in his slide and preserves the magic that's in those PolicyCenter, ClaimCenter and BillingCenter applications.

Those things will evolve, but those things are very, very good. And so, 10 years from now, I think what your – what I hope to create, what we hope to see is that a lot of the industry realizes this thing, Guidewire's offering makes a lot of sense. Very low risk, very high potential for us to succeed. It's going to work, it's going to scale. It's going to deliver us the extensibility and innovation benefits that we want.

And at that point, you start to realize there is like a network effect to this also. It's got the strongest ecosystem. It's got shared data across all of these customers that we're harvesting and creating models around, that we're able to do things with that critical mass of customer base that nobody else can and that makes it even more valuable. So, yeah, that's part of the plan or that's part of the ambition, I would say, not so much the plan, but that's part of the ambition and I think that's what's inherent in the potential of the company, right?

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

One thing that will – I know will be fundamentally true 10 years from now will also be the size and scale of these existential decisions that carriers and insurers make. So, while that's the goal that we're driving towards, what will be true and I have great respect for all of our competitors. I think there's a lot to be said for fierce competition in the market.

What will be true is, whether there is a viable competitor 10 years from now or not, the buyer will invent one out of whole cloth if necessary, given the size and scale of the types of decisions that they're making and the duration of those decisions. So, while fundamentally we're driving towards that objective, every deal is going to be a hard fought deal just because of how fundamental it is to running the hearts and lungs of these insurance companies.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

We have another one from Zoom here. Jeff, for you on the long-term target. Could you provide a little more directional color on what drives the 500 basis point improvement in gross margins to 80%, without giving away the year of course? Is it linear? How do you shape that?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah, I mean, look, I think, we've seen a lot of benefit of what the team has built over the last two years in incremental margins, but we know we're not done, right? There's still work that Diego is working on. I'm sure he can talk about some of the things that he's thinking about to make the platform with more automation and more efficiency.

And then, there's just the value of scale that as we aggregate more and more customers on a common cloud platform, there's certainly scale benefits that we expect to capture. And then, there's a lot that's going on in the technology landscape around how technology is going to be built and consumed, but there's going to be some efficiencies there and as we look ahead. But there's a variety of different ways that we can get there.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, this is a steady progression, right. And if I would, I want to prompt Diego to answer this question. If you think back, Jeff had a slide where we broke out the head count cost and the infrastructure costs that make up the gross margin. And Diego, you should comment just about like the work we've done to target the head count cost and then the work we have done or will do in the future to target the infrastructure costs. And it's like think – tell us how you think about that.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

A

Yeah. So if you look on that, on that 80%, eventual 80%, first of all, always think in terms of a dollar is a dollar. So, if you invest that dollar to build a new capability that can give you 10x in revenue or you invest that dollar in saving something, then there is always that trade-off that we need to make. In general, three years ago, we were – if you were running the model three years ago, it was a model into which we will, five years ago, we will have ended up with more head count than AWS.

Now, we are into a model into which today is 50-50, give or take. And we're going to go into a direction in which for sure, the distribution of head count is going to be lower, that infrastructure and third-party software and so on. Going to that [ph] 80%, to the question about linear, (02:54:52) and so on, we start to have optionality, so we

could decide, we can make a decision, Jeff can make a decision to come to my desk and saying, hey, accelerate a little bit this or do a little bit that. We're in a position in which we could do those kind of things. We're executing at the pace into which we have that kind of – we start to have that those option.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

We can also get a...

A

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Slides were too good. Ken?

A

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

...There you go. Ken.

A

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Ken Wong from Oppenheimer. I guess, just a quick reminder in terms of why we lizard brained analysts shouldn't take the fully ramped ARR of 19% and assume that ARR growth going forward could kind of been lean closer to that end of the spectrum versus the mid-teens area.

Q

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Yeah. So, fully ramped ARR is a reflection of kind of the end state of all of our contracts, right? The end state being capped within five years and that number naturally is going to bounce around more, right, like in a strong year, it's going to pop up a little bit more than ARR growth, in a weak year, it might drop a little bit lower than where – kind of where ARR growth is and that's just the dynamic of picking the largest number and kind of how that then bounces around.

A

And then, that flows through ARR. Now, certainly, if we sell five years in a row, where fully ramped ARR growth is at 19%, then ARR will track to that over time. We've had two years of what I would call elevated, fully ramped ARR 17% – 19%. That is a tailwind to overall ARR midpoint of our guidance this year, 16%. And so, that's flowing through the model, but fully ramped ARR will kind of have the kind of highest variation. And as it rolls through ARR, it'll be a little bit more muted.

Q

I guess, just a quick follow-up on that. Is there anything from these last two years that you would suggest – is there anything from these last two years of elevated, fully ramped ARR that would keep you guys from thinking that, perhaps that this isn't a new trend line?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

We're thrilled with the sales momentum we've experienced over the last two years. I think, like the team has executed a super high level and this industry moves at its own pace and we're thrilled with the progress. Love to

A

see it continue at elevated levels, but it gets harder and harder to show growth compares, right, as you kind of roll these numbers through it. So...

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

But I would you say, so I've had opportunity to be a part of the company for five years, right. And you look at your ratios, you say how much pipeline do we have and what do we think will close and how well, we have a few years in there where that close ratio wasn't as good as we wanted it to be. And we've had two years where it was just stellar, right? And it's just really, really high.

And so, I certainly wake up every morning trying to do every single thing I possibly can to ensure that next year is stellar also. And I want to give myself all the credit – the team, right, it's all the things that we've done, we've made a great product, we make sure customers are successful. I want that close rate to be high next year too, this current year.

But we just have to be a little bit careful about assuming that we're going to have that outcome when we make our plans, right. Because also, we're making plans about how much are we investing in the company relative to revenue. And so, I think it's just – given the scope of my experience with this market and this use case, I think that the plan is good, the projections are good. But we have had two really, really good years with high close rates and let's hope we have another.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

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And then, what John was talking about from a priority perspective, he was saying, sell into our install base and so on. The more we come with potentially a platform capability or order capability that would be instantiated as an add-on that will become immediately all-on right? There is not an ARR component into that.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

There's not a ramp.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

A

There is not a ramp component into that, right. That thing is treated in a different way.

Matthew David van Vliet

Analyst, BTIG LLC

Q

All right. Thanks. Matt VanVliet from BTIG, again. I guess, as you look at and you made some comments about GWCP is sort of fully built out. Maybe two part question there. Where are we in terms of true feature parity from the past on-prem, you can customize it to [indiscernible] (02:59:51) GWCP today. So, is there anything that you sort of electively maybe not moved over one for one or anything of that nature?

And then, maybe more importantly, looking ahead, what's the internal balance of do we want to build our capabilities for some of the most narrow specialty lines out there? Or is that part of the marketplace strategy long-term to say, let's give you the core building blocks but single country, single very specialty line that's a partner type of movement over even a customer self-building on top of the platform. So, from where we were a couple of years ago to where we will be in a couple of years, what's the internal development priority?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Well, Diego is dying to answer this question. I'm definitely going to give him an opportunity for sure. I just wanted to say this. There should be no compromise in what a customer can do with Guidewire Cloud versus what a customer can do on-prem, right, cloud is better. There may be circumstances in which we tell customers, we want you to do it this way, because that's going to make it safer to update.

That's going to make it safer for us to build the next iteration of Guidewire against. And so, sometimes, that might be a little bit more cumbersome than what they were able to do if they had complete ability to do whatever they wanted on-prem. That's just part of the deal. It's good for them in the long run that they can stay updated. And so, but the key word is no compromise. Customers can do what they need to do with our product in the cloud. And now, Diego will tell you the real answer.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

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So, the real answer is very similar, but the first in a journey, there were – so, you have to think in terms of this. The product is the product, and then how you run it is what you have done around, right. So, when we talk about this, always you have to make a differentiation between ClaimCenter that is ClaimCenter. And if you go five years ago, not today because now ClaimCenter today across the [indiscernible] (03:01:55) five years ago.

But if you go start five years ago, there was a ClaimCenter and then there was a way that you as a carrier was running ClaimCenter. So, you pick your CI/CD pipeline, you pick the way you test it and you pick the way you deploy it. You pick your application server, you pick your database, you pick tons of those things and you invest a lot of time and money in optimizing this, right? So, then, there was a customer coming to you and saying, oh, I can deploy these things any day three times a day, whatever I want because I have done all of this. Do you have that capability? Is that automated? Is that not automated? And so, we close the gap on pretty much everything there.

Now, there are some customer that gets things that they never got before. Tatjana was talking about blue, green deployment. I don't think that any of our customer build on their own a robust blue green deployment as we are now being able to offer into the infrastructure. So, I think that the gap on what they could do is at the minimum at parity, but they have decided to use a different code repository, a differentiated CI/CD pipeline and so on. But they need to invest an arm and a leg into keeping the entire stack up to date, right.

Because now, even if they're a parity, when there is a new job, when there is a difference into something into the stack, all that burden is on them. So, that is kind of the big difference, but the big conversation those days is not anymore. You don't have this feature. Some of the conversation is, we want to keep our own testing infrastructure.

Can we combine our own testing infrastructure with your GWC, can we hook it up? And this was kind of what I was referring into one of my slide and said, when maturity comes with degrees of flexibility and configurability that we can offer. So, in some of those conversation with our customer, now we offer a little bit more [ph] leeway (03:03:52) on few things that back in the days, we couldn't. It was this way or no way.

The second part of the question before John answer is that everything that we're doing from a platform perspective, from an API perspective is done in a direction in which we could enable a future into which we either build the line ourselves because there is value and there is a strategic decision to do it, but is equally also in some

area where we can enable a partner or another vendor to do it. The decision of what we pick is going to be John and the overall team. But the platform per se, we've been trying to make it in such a way that going forward is going to be more decoupled where in the past, it was only us could do those things.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

And I think so, from my standpoint, what Diego is describing really reflects how the content can be kept quite separate from other parts of what has to inherently be built and provided by us. And so, one of the things to me that's the most exciting this year is that not only have we always, of course, as we have published, marketplace content that are from our solution partners.

And so, when you think of the insuretechs and some of those groups, but particularly around a lot of content and for line of business specificity, some of our consulting partners have actually now started to publish their validated line of business solutions and make those available on marketplace. And so, I think that's a great way for – it shows how important the richness is of our full ecosystem, not only thinking of the traditional solution partners, but also thinking about the types of pre-built content and accelerators that [ph] our SIs (03:05:31) can bring to bear in order to make implementations even faster.

Diego Devalle

Chief Product Development Officer, Guidewire Software, Inc.

A

Yeah, what Mike said like, goal versus ambition, our ambition is that the community of developer building on top of Guidewire platform will continuously increase. And if we do everything in the right way, that is going to be the outcome, right. I personally see that at some point, we're going to have competitors that are going to also build some extension on top of our platform and saying, hey, you guys are doing this very well, but here, there is an extension that we can build and so on, right. So, again, all that is to simply say the largest, the largest we kind of – the more successful we're going to be, the more we're going to expand the community of developer that will build on top of our infrastructure.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

A

Yeah, just to say that we're able to do it all ourselves, I think is incredibly difficult. And it starts to get into a nuance that we just simply wouldn't be able to cover. As an example, we have some solutions there for usage based coverage, parametric coverage, and there are so many nuances in the way that someone might want to deploy, having as much optionality there as we can, means that customers can take the most advantage of it as quickly as possible.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Yeah. Rishi over there.

Rishi Jaluria

Analyst, RBC Capital Markets LLC

Q

Yeah. Rishi Jaluria, RBC again. Thanks. One quick question as we think about kind of the ability to bring more GenAI and traditional AI capabilities throughout the Guidewire platform, obviously, super, super early. But if we're having this conversation again in 5 years, 10 years, given especially how expensive GenAI workloads can be, even with the cost curve coming down, how should we be thinking about the impact on gross margins over kind of

the long-term? Can this be something that is a drag or are there ways that you can manage costs, so that it's not kind of disruptive towards a glide path towards 80% margins? Thanks.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Well, so, I think, if you want to imagine what the product looks like in five years, I think you can say generative AI will most likely have a very significant impact on what the product looks like. And that'll be very significant back and forth to some form of large language model that is helping the decision – helping the users make decisions more effectively. That, I would say very surprised if that doesn't occur.

But, you know, two things. I think the cost curves are not just the little, the cost curves are really coming down. And I think that the initial take of how expensive these things are going to be to run, that is changing. And I think five years from now will have changed dramatically from where we are today.

So, my sense, I'm not worried that that's going to cause us to have to deviate from the margin objectives and obviously we would keep everybody informed if we came to some alternative conclusion and those use cases started to materialize. But that's not something that I worry about right now. I've just been much more focused on can we provide types of decision support using these systems that really our customers need?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

The only thing I would add is, it's not in my model today, right. I mean, I think I haven't factored in some of the cost curves around new product creation for GenAI. I also [ph] haven't (03:08:44) factored in my model some of the efficiency gains in terms of how we manage our operations or our development effort into the model. So, we'll be watching closely, but it's certainly not something that is in my model today.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

Just for fun, Ken, I answer it from your follow-up question, which would be if that proved true, then wouldn't we be capturing a higher percentage of the value take on every deal that goes through. And that would you know, there's a value delivered to the end market there. That would be our responsibility to make sure that we identify, position and capture that appropriately.

Fair? I represent okay, Ken?

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Okay. Anyone else? There's no crime in finishing five minutes early. All right.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

Okay. Thank you all.

Tatjana Lalkovic

Senior Vice President & Chief Technology Officer, Definity Insurance Co.

Thank you.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Thanks, everybody.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Thank you so much.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Thank you.

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