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Guidewire Software, Inc. (GWRE)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Guidewire Second Quarter of Fiscal 2025 Financial Results Conference Call. As a reminder, this call is being recorded and will be posted on our Investor Relations page later today.

I would now like to turn the call over to Alex Hughes, Vice President of Investor Relations. Thank you, Alex. You may now begin.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Thank you, Grace. Hello, everyone. With me today is Mike Rosenbaum, Chief Executive Officer; and Jeff Cooper, Chief Financial Officer. A complete disclosure of our results can be found in our press release issued today, as well as in our related Form 8-K furnished to the SEC, both of which are available on the Investor Relations section of our website. Today's call is being recorded and a replay will be available following its conclusion.

Statements today include forward-looking ones regarding our financial results, products, customer demand, operations, the impact of local, national and geopolitical events on our business and other matters. These statements are subject to risks, uncertainties and assumptions are based on management's current expectations as of today and should not be relied upon as representing our views as of any subsequent date. Please refer to the press release and the risk factors and documents we file with the SEC, including our most recent report on Form 10-K and our prior and forthcoming quarterly reports on Form 10-Q filed and to be filed with the SEC for information on risks, uncertainties and assumptions that may cause actual results to differ materially from those set forth in such statements.

We also will refer to certain non-GAAP financial measures to provide additional information to investors. All commentary on margins, profitability and expenses are on a non-GAAP basis unless stated otherwise. A reconciliation of non-GAAP to GAAP measures is provided in our press release. Reconciliations and additional data are also posted in the supplement on our IR website.

Finally, similar to last quarter, Investor Relations is conducting this earnings call via Zoom audio rather than at Telebridge. This means we will manage the Q&A portion of today's call internally with the help of Grace moderating you just heard from and myself managing Q&A. Please be patient if we encounter any short pause in any of the handoffs during Q&A.

And with that, I'll hand it off to Mike.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Thank you, Alex. Good afternoon and thanks, everyone, for joining us today. I want to start by extending my sympathy to those affected by the Los Angeles wildfires and the more recent floods in Kentucky. In 2023, there were 28 events in the United States that each caused at least \$1 billion of loss and in 2024, there were 27. In Europe, flooding and convective storms caused \$14 billion in insured losses in 2024 and the recent fires in L.A. are estimated to have caused an insured loss of \$30 billion. The P&C industry acts as a financial backstop for families and businesses impacted by these catastrophes. More than ever, a well-functioning P&C market is critical

to providing consumers, businesses and communities the peace of mind and the confidence they need to invest and live with the risks associated with catastrophic weather events.

This critical function is one of the reasons why everyone at Guidewire is proud to play a role in the insurance industry. Our mission is to provide a technology platform that powers agility in the P&C industry, which helps support a more vibrant and effective insurance market, one that helps people, businesses and governments understand risk in economic terms and make rational decisions about these risks and how to prepare for, mitigate and avoid them. This mission was established when Guidewire was founded. It has since motivated us to build our market-defining software category, supporting insurance core systems, and to ensure that through our cloud-based evolution, we will play a critical role in the industry for decades to come.

Turning to the second quarter and the current state of our business, I could not be more pleased with our progress and the quality of engagement we have with the market. This includes steady progression in engagement with some of our largest on-prem customers. It is becoming more and more clear that the industry's transition to the cloud is steadily accelerating. Regarding the detail of the second quarter, we produced solid sales activity with ARR finishing above the high end of our projected range. We closed 12 cloud deals. This included four for full InsuranceSuite deals, one InsuranceNow deal and the remainder for one or two core X Center applications. As a reminder, full InsuranceSuite deals include all three applications or X Centers, as we sometimes refer to them, PolicyCenter, ClaimCenter and BillingCenter.

Since launching Guidewire Cloud Platform, our thesis has been that we will see growing demand from new customers replacing legacy systems as we prove out our cloud capability with our customer base. In Q2, we welcomed five new customers, including one in Brazil and one in Belgium. We had a large global specialty insurer start their Guidewire journey with BillingCenter and look forward to the opportunity to expand to PolicyCenter and ClaimCenter in the future. Finally, with respect to new customers, we closed a full-suite competitive takeaway at a Tier 3 insurer that is a subsidiary of a larger entity where we see meaningful future growth potential. We also closed six cloud migrations in the quarter, which is critical for our ongoing intention and commitment to migrate 100% of our on-prem customer base to our cloud platform and two of the six included expansion into new business lines or new core modules.

Looking at our deals by geography, this quarter was led by North America and Europe, with about a third of the deals in Europe. Competing effectively outside the United States often requires us to invest in country and market-specific functionality and I was particularly pleased to see this investment translate into three Tier 1 deals, including with two large London market insurers. Across the board, our sales activity in Q2 was concentrated at Tier 1 and Tier 2 insurers, where customer requirements are focused on the ability to handle significant complexity and scale.

With respect to the industry overall, I've been asked regularly about the potential short-term impact of the California wildfires on Guidewire. Overall, I would say that the property and casualty insurance industry is incredibly resilient and is designed to absorb these types of catastrophes. The one silver lining from these recent events is that they have increased awareness in the importance of maintaining a high-functioning insurance market where insurers are enabled to evaluate and price risks responsibly.

Turning to operations, we are seeing strong growth in cloud deployments and customers are more efficiently taking updates, keeping them current with recent innovations and functionality. Instrumental to our success driving adoption and deployments is our growing cloud ecosystem of partners. There are now 26,000 Guidewire-focused practitioners across 38 system integrators and the number of Guidewire Cloud-certified professionals has passed 10,500. Another dimension of our partner ecosystem that is equally important to our long-term vision is

our technology partners. As we've grown cloud, we've accelerated the number of cloud apps from both Guidewire and our technology partners. Guidewire Marketplace now has over 500 applications, including over 270 from technology partners, and there have been over 6,000 app downloads in just the first half of this year.

In summary, it was a great quarter with continued momentum across the business. We feel great about how the year is shaping up and couldn't be happier with everyone in the company helping us to continue to deliver reliable ARR and revenue growth, while simultaneously improving margins. All of this is based on an unwavering commitment to the success of every single customer program our company supports, which is ultimately what positions us well for the future.

I'll finish with a personal note about one of the customers, which really exemplifies our mission and the impact our platform can have in critical times. During the L.A. fires, California Casualty leveraged Guidewire to proactively identify and rapidly contact over 400 at-risk policyholders, ensuring their safety and offering immediate aid, including needed housing.

By overlaying fire map layers on address policies in Guidewire, they were able to identify total loss homes, often preempting customer assessments. This swift action enabled them to provide over 90% of total loss homeowners with full coverage payments within two months, so customers could move forward with Plan C to rebuild or purchase a new home. We're proud to play our small role in this effort and industry.

And with that, I'll turn it over to Jeff to discuss the financials.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Thanks, Mike. We had a great Q2 and the full year is tracking ahead of our expectations. ARR finished at \$918 million, which reflected strong sequential ARR additions in the quarter. This was driven by healthy new sales activity and new ARR sold from deals in prior periods with ramps, which we sometimes refer to as ARR from ARR backlog.

As a result, we added \$45 million of net new ARR, which is roughly what we added in Q4 last year, which is always our largest seasonal quarter. So, it is exciting to see the model play out in this manner.

Total revenue was \$289 million (sic) [\$289.5 million] (00:09:26) up 20% year-over-year and above the high end of our outlook. Subscription and support revenue finished Q2 at \$178 million, reflecting 35% year-over-year growth and our continued InsuranceSuite Cloud momentum. Services revenue finished at \$48 million, which was in line with our expectations.

Now, let me turn to profitability for the second quarter, which we will discuss on a non-GAAP basis. Gross profit was \$189 million, representing 25% year-over-year growth. Overall gross margin was 65%. Subscription and support gross margin was 69% compared to 65% a year ago, and continues to track a bit ahead of our expectations.

Services gross margin was 6% compared to negative 11% a year ago. The services business finished the quarter in line with our expectations. As a reminder, Q2 services revenue is usually lower as a result of the impact of the holidays on services deliveries.

We finished Q2 with operating profit of \$54 million. This finished ahead of our outlook as both gross profit was higher than expectations and operating expenses finished lower than expectations. We have been more

measured in our hiring in the first half, but we do expect to see increased hiring in the back half of the year, and this hiring will be focused on product development teams.

We ended the quarter with \$1.4 billion in cash, cash equivalents and investments. Operating cash flow ended the quarter at \$86 million, which is ahead of our expectations due to strong collections in the quarter.

Before turning to our outlook, I want to quickly touch on some actions we have taken related to our 2025 convertible notes, which are set to mature later this month. In Q2, we retired an additional \$100 million at face value of our 2025 convertible notes. The real cost associated with this was \$153 million, and this resulted in a \$53 million charge to other income on a GAAP basis.

We did this when our share price was between \$170 per share and \$177 per share, with the intent to limit share dilution risk associated with the converts that are coming due. We will repay the \$179 million left outstanding in Q3, utilizing net share settlement.

Based on current share price levels and when you factor in the impact of the call spread that we purchased in conjunction with issuing the 2025 converts, we now expect share dilution of less than 10,000 shares as we close things out, although this number will be impacted by the share price over the next couple of weeks. Had we not bought back the converts that we've retired in the last couple of quarters, then the share dilution would have been over 700,000 shares, so I'm pleased that we got in front of this.

Now, let me go through our updated outlook for fiscal year 2025. Starting with the top line, given our performance in the first half and our strong visibility into the second half, we are raising our ARR outlook to \$1 billion to \$1.01 billion, which reflects growth of 16% to 17% year-over-year.

Confidence in our ARR outlook is informed by; one, strong growth in our ARR from ramping deals in the back half with a notable jump in Q4; two, our view into the pipeline for the back half of the year; and three, our continued high win rates.

I also want to comment quickly on ARR visibility and the quarterly seasonality dynamics as we expect higher seasonality in Q4 this year due to the timing of ARR ramps. The key dynamic of net new ARR additions in a period is the amount of ARR coming from the backlog or from ramping deals sold in prior periods.

And since these ramps are clearly outlined in customer contracts, we have clear visibility into these increases. This year, we will see stronger growth in new ARR from ramps in the back half and this is due to the realization of ramps of strong sales activity we experienced last year and in fiscal 2023.

With respect to seasonality, this year, we expect nearly three times more ARR from backlog to come in Q4 when compared to Q3. This is a significantly larger quarter-over-quarter step-up when compared to last year. To some extent, this is just how the ramps are landing this year and these dynamics can shift a bit year-to-year. But we thought it would be helpful to call out this dynamic to help you all better understand the expected net new ARR increase in Q4.

As a reminder, our ARR outlook assumes foreign currency exchange rates as of the end of our last fiscal year, and we update ARR exchange rates at year-end. If we update ARR today based on current exchange rates, then we would see an approximately \$9 million negative adjustment. We will certainly quantify this at year-end, and we will continue to monitor FX rates throughout the remainder of the fiscal year.

For total revenue in fiscal 2025, we now expect between \$1.164 and \$1.174 billion. We expect approximately \$653 million in subscription revenue and \$718 million in subscription and support revenue. Given higher than expected services bookings in the first half of the year, we now expect services revenue to be approximately \$210 million.

Turning to margins and profitability, which we'll discuss on a non-GAAP basis, we still expect subscription and support gross margins to be approximately 69% for the year. Our expectation for services margins and total gross margins also remain unchanged at 12% and 65%, respectively.

As a result of raising our revenue outlook and a bit slower hiring than we originally expected, we are lifting our outlook for operating income. We expect GAAP operating income of between \$10 million and \$20 million and non-GAAP operating income of between \$175 million and \$185 million for the fiscal year.

We expect stock-based compensation to be approximately \$160 million, representing 9% growth year-over-year. We are also increasing our cash flow from operations for the year to be between \$230 million and \$260 million.

Turning to our outlook for Q3, we expect ARR to finish between \$942 million and \$947 million. Our outlook for total revenue is between \$283 million and \$289 million. We expect subscription and support revenue of approximately \$178 million. Subscription and support revenue is tracking around \$2 million per day and Q3 has three fewer days than Q2, which explains the modest sequential growth.

We expect services revenue of approximately \$52 million in Q3. We expect subscription and support margins of between 68% and 69%, services margins to be around 10%, and total gross margins around 64%. Our outlook for non-GAAP operating income is between \$36 million and \$42 million.

Alex, you can now open the call for questions.

QUESTION AND ANSWER SECTION

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Please raise your hand if you're ready to ask a question and we'll get to you.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Hey, thanks, guys. Mike, maybe starting for you. You called out and it's very clear the resiliency and gravity around kind of the data cloud opportunity today. There's a lot of uncertainty in the world, but carriers clearly need agility here. Wondering on the decisioning angle from carriers, how much adaptability and interoperability comes into play in those conversations?

And now that you have kind of that tipping point of 50%, maybe how you're thinking about leading into some of those conversations with legacy on-prem customers around what that end of life journey looks like based on kind of prior comments around 100% getting to the cloud over time?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. Thanks, Dylan. Yeah, for sure, I would say there is a growing recognition that operating core systems both claims and policy/underwriting rating and pricing systems on modern platforms with modern capabilities brings a level of agility to an operation and insurance operation that enables them to be more competitive.

They need to be able to manage indemnity more effectively. They need to be able to manage down cycle times, which increases their expense ratios and profitability. They need to be able to set prices and define rates as effectively as they possibly can.

And they don't want to be burdened by these legacy systems either because the IT execution expense, let's say for making changes is high or because they don't have access to the data they need to be able to make the decisions that they need.

And so, all of that adds up, to they need modern systems and they got to figure out a way to get there and that is absolutely helping us kind of across the board, every insurance company in the world is thinking about this.

Now, doing these programs, as you're aware, it's pretty significant. These are multi-year programs and they've got to kind of slot them in into their plans over the course of a decade in some cases, that's just the unfortunate reality. But the pace around which we're having these conversations is really improving and the quality of the conversations is improving.

You can just get a feel of a sense of I can't claim it to actually be inevitable, but it kind of feels that way. It's like we recognize that Guidewire is distinguishing itself and it's probably the right place. And so, that just makes us – that just gives us confidence in what we've built and how it's going to positively impact the market.

I think that the end-of-life conversations that we have about our ability to support our on-prem customer base, that's sometimes difficult. But I think we're taking a very mature and careful approach and talking to every single

one of our customers about what they expect to need from us, and what they can expect from us and what we're prepared to do and trying to give everybody as much time to make these decisions as possible.

And so far, we've been very – we've received a lot of positive feedback, actually, about the approach that we're taking to giving them time to plan and working with them on what the approach is going to be. So, I don't know, you add all that up and Guidewire – it was a good quarter and that adds up into a lot of positive visibility for us into the second half and into next fiscal year.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

That's great. No. Very helpful and very clear, the momentum that you guys are seeing. Maybe, Jeff, for you. As a function of that, it's given you a lot of kind of incremental levers to play with across the model I would think of, and nice to see kind of the upside flowing through.

You called out kind of the uptick in hiring in the second half, but how do you think about that balance of kind of margin outperformance with the opportunity to reinvest and kind of double down given this opportunity tends to be or seems to be kind of slightly accelerating here as well? Thanks.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I mean, we're thrilled with the opportunity to continue to sell into our install base and add new customers. That is our number one focus. And we're not going to focus – we have a strong focus on driving continual margin expansion, but we can do that while also continuing to grow into our market.

We see some really interesting investment areas and that's part of the reason why we accelerated some R&D investment this year. It's taken us a little bit longer to get some of that hiring going, but we have line of sight into some accelerated hiring in the back half of the year that will be targeted at some of these interesting investment areas that we're focused on. So, we think we're doing, we've got a healthy balance there between making sure we're focusing on the growth opportunity in front of us.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks, Dylan. Our next question comes from Ken Wong of Oppenheimer.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Great. Thanks for taking my question. Mike, you touched on kind of the California situation and one of the kind of the concerning issues kind of leading up to that was large insurers leaving because of price caps.

I mean, it seems like maybe some of that is starting to shift back. I saw Allstate is coming back after getting some price caps lifted. Would you characterize this as a tailwind for Guidewire since you guys disproportionately skew higher tier versus the lower tiers that might have backfilled those large guys that left the state?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Well, I don't know whether overall it's a headwind or a tailwind. Generally, I would say there is recognition that a lot of the insurance policies in the state of California probably need to be repriced. And the state of California is working through that with our insurance customers in my point of view, in a proactive way.

I think it's obviously catastrophic what happened in L.A., and incredibly unfortunate. But everybody recognizes that because of that, that insurance is very important for the state of California. And I think there's a lot of insurance companies who are excited to find a way to participate in that market and help provide that service to consumers like me, honestly, who live in the state of California.

That dynamic in general, I would say is helpful for Guidewire. I don't know it's like we're better suited or worse suited, but it's just well-suited to what I'd say, like bringing modern technology to the insurance industry, so that we can price risk effectively, so that we can manage claims effectively, that we can manage catastrophes when and if they occur as efficiently as possible, and all of that tends to support our core value proposition. So, that's how I would frame it.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Got it. Very thoughtful. Appreciate that, Mike. And then Jeff, just subscription and support gross margin kind of ticked up, again, ticked higher than we anticipated. I recall last quarter, you're kind of signaling again, we shouldn't always assume things will kind of track up and I think kind of steered us down sequentially. How should we be thinking about it as we go into kind of Q3 back half?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I mean, look, embedded in our guide is, it is relatively modest margin expansion in the back half of the year off of the first half of the year or kind of relatively like – remaining relatively the same. We really manage and measure our progress on this metric on an annual basis.

And quarter-to-quarter, there may be some small fluctuations based on kind of certain customer go-live events where usage patterns tick up or when AWS credits get realized. But we generally think about this on kind of how we manage to the full year, and we're pleased with the amount of expansion we're expecting to see this year, and we expect to see that to continue to steadily march towards our near-term, mid-term and longer term targets as we look out in the future.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Got it. Thanks a lot, Jeff.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Ken. Great. Our next question comes from Alexei Gogolev of JPMorgan. Go ahead, Alexei.

Alexei Gogolev

Analyst, JPMorgan Bank International LLC (Moscow)

Q

Hello, everyone. Mike, initially, we call you being skeptical about the application of AI. What are you seeing today that makes you feel that AI could be a game changer? Is it just about modernizing core systems and streamlining workflows, or do you think there is opportunity to leverage your extensive data to create value for your

customers? And is Guidewire positioned well with the access and rights to this [indiscernible] (00:25:38) data across your customers to provide some competitive offering?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. Thanks for the question. So, first of all, I would say the insurance industry, our opinion is the insurance industry is generally well positioned to benefit a great deal from generative AI. There are a number of areas that we are working on right now in collaboration with customers and prospects around the application of generative AI to insurance use cases.

So, I think you – we are hopeful and excited about the potential to increase the productivity of development teams working with Guidewire and that provides a boost to the industry and a benefit to our customers.

We're excited about the application of generative AI to the claims adjusters and the work that they need to do, interacting with claims files and documents and the interactions that they have with claimants and managing that very, very complicated business process as effectively and efficiently as possible.

And we also think that there's a significant opportunity for generative AI in underwriting and specifically around document management, evaluation of submissions, comparison of what the underwriters are kind of reading in those summarized documents versus the risk appetites that carriers have and just generally improving the efficiency of the underwriting process. So, like those are three very high level examples of where I think it will be applied and more excited to play a part in that.

I also would say there is – we had an interesting conversation with a set of very senior IT executives in the industry and they said there's also a huge opportunity for us in what you might call classic AI or just straightforward machine learning associated with the shared data asset that we can collect and manage on behalf of all of our cloud customers.

And so, regardless of large language models and generative AI, there's an opportunity to apply artificial intelligence and machine learning to that use case and improve business efficiencies. So, very, very excited about all of this.

But I always remind everybody at Guidewire that first and foremost, our job is to make sure that every single core system project that we do, that we embark on with our customers is successful. I want to maintain that perfect track record or as close to perfect as we possibly can. And I want to invest in ensuring that we are winning every single core system worldwide that we compete in, and making sure that those programs go successfully.

Now, we've created some space in the business model at Guidewire over the past couple of years is very positive and Jeff kind of referenced that in terms of our ability to hire and our ability to tackle these incremental use cases. So, we're excited about that. It's not the number one priority at Guidewire right now.

The number one priority at Guidewire right now, like I said, is make sure these programs go well, make sure we continue to win in our core business. We're doing that super effectively. I think that strategy is working very well for us. And I think we actually are incredibly well positioned to bring tangible real benefits based on generative AI to the P&C industry.

But we're going to do that carefully, right? So, I would tell you like that's – I'm very excited and bullish in the long run, but I don't want anybody to get distracted about what the core objective of the company is. Sorry. I don't know if you're still there. It was a long answer.

Alexei Gogolev

Analyst, JPMorgan Bank International LLC (Moscow)

Good.

Q

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

All right. Thank you. Next question is from Rishi Jaluria from RBC. Go ahead, Rishi.

A

Rishi Jaluria

Analyst, RBC Capital Markets LLC

All right. Wonderful. Thanks so much. Really nice to see continued progress in the quarter. Just two for me. Mike, you talked about some of these platform deals that you're seeing with larger insurers. Maybe can you walk us through where are the opportunities you see to consolidate budget within your existing base, right?

Q

I know you've historically had a lot of customers that may use you for one line or use you for two products and use a competitor for another line or for another set of products. Where do you see those consolidation opportunities and what kind of tools do you have in your arsenal to maybe use kind of the innovation that you've been bringing as a consolidation opportunity? And then, I've got a quick follow-up.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Yeah. It's a great question, and I'll answer it this way. I think for a lot of our big on-prem customers, they're generally very successful and happy with their on-prem implementations with Guidewire. And so that has made it challenging, let's say, for us to sell them the new thing in the cloud upgrade.

A

When they're successful and they're operational and they're reaping the benefits of the investment that they've made in that implementation, for them to think about the next phase is sometimes challenged because they've got other priorities. And so, what we're always looking for, and what I think you're kind of pointing to is, what's a compelling event that they have that can align to a cloud upgrade on the Guidewire side.

So, is there an incremental initiative around a new line of business or a consolidation of claims operations across different lines of business that create a logical program to do something significant with Guidewire that is logical then to attach to a cloud upgrade.

And I think that our patience in working with these customers about what their long-term strategies are around their business objectives helps us get our cloud upgrade opportunities aligned to what makes sense for them.

And I think in each case, which I'm obviously not going to go into the details of each one, I can think of a compelling business event that is behind the uptick in the conversation that we're having with that customer. And so, as long as we can keep those things aligned, I think it's just so like I said, it's like slowly accelerating the confidence that we have in those ultimate cloud upgrades.

Rishi Jaluria

Analyst, RBC Capital Markets LLC



Awesome. Thanks. And then just kind of a quick follow-up. If we think about services and specifically the services gross margins, I know we've discussed the opportunity in the past to get those up over time. Maybe just how should we think about the glide path to improve services gross margins, improve utilization rates?

And maybe just tying in GenAI into this, is there an opportunity to bring GenAI for some of the lower services use case? Again, just trying – I know you're not trying to run it for profitability, but I imagine some sort of margin expansion on the services side would be great to see. Maybe just any puts and takes there would be helpful. Thanks.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.



Sure. I think the team has done a good job ensuring that we're selling our services, but we're working very closely with the partner ecosystem and the SI community to figure out what the rules of engagement and how we kind of trade off and work together to tackle this massive opportunity.

We've seen services revenue tick up this year. It's a highly strategic organization. We have capacity to deliver. As I've said previously, a little over \$200 million of services revenue we are executing towards that number.

And longer term, we expect to see those margins tick up a little bit, but again, the primary focus of this organization is towards that mission that Mike highlighted to ensure that every single one of our customer programs are successful. The team is looking at how we use GenAI certainly and AI and implementation programs around developer productivity.

We're also, for the first time, doing a little bit of an expansion of our services organization into the India office to create some avenues for some lower cost delivery options for us that could also help long-term on the margins.

But again, our focus here will be kind of maintaining a very healthy services organization, that is a highly strategic function for us and getting it to an appropriate margin, but one that's their primary goal is making sure that the software implementations are successful.

Rishi Jaluria

Analyst, RBC Capital Markets LLC



Wonderful. Thank you.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.



It's a great answer. And I want to – I just want to double down on what Jeff said. It's like our services organization is so strategically important to our company and our overall success, and we've done a great job in the last few quarters, kind of changing the business model and getting it more profitable. But that is not really the primary objective.

Like these guys, we've really done a great job there, but what I really look for is this like strategic asset that we can use and apply it where and when we need it. This was the secret behind our cloud success in addition to creating a great platform, but they really helped us get through that phase where we needed to be very deeply

connected to a lot of those programs, and that may come in the future. So, it's great to see the improvement in the business operation, but really it's about the strategy that organization is the primary goal.

Rishi Jaluria

Analyst, RBC Capital Markets LLC

Great. Thank you.

Q

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Thanks, Rishi. Our next question comes from Alex Sklar at Raymond James.

A

Alexander Sklar

Analyst, Raymond James & Associates, Inc.

Great. Thank you. Mike, I want to follow up on your answer to Rishi's question on the cloud migrations there. So, maybe not a new motion to push for kind of that concurrent cross-sell at the time of migration, but any color how much that customer willingness has increased over the last year or so?

Q

And is there any way to kind of quantify that if you take another center at time of upgrading to the cloud, it only adds like X percent of the cost, the time? Like how much of a benefit is it to the customer to take that extra cross-sell at point of migration versus doing them separately?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Yeah. I wouldn't say that there's really an economic driver behind that bundling, let's say, or that connection of the two things. It's more about getting familiar with the new operating model, getting the teams trained up and comfortable with our cloud platform and the new approach to configuring the Guidewire applications in the cloud. That sort of just creates the logical conclusion that we should do these kinds of programs, not exactly simultaneously, but the decisions should be made in conjunction with one another.

A

And I don't think there's any like one thing that I would point to that says this is causing us to be just have a little bit more confidence in the future as it relates to these large companies. It's just more maturity of the platform. It's the track record of success. It's our confidence in our ability to distinguish ourselves in the market, certainly vis-à-vis three or four years ago, but just steadily improving quarter-after-quarter.

It's just a continued track record of success that builds confidence not just with us and our customers, but also the systems integrators and the general ecosystem of like the risks associated with making that decision to go to Guidewire Cloud or just lower and lower every day.

And look, I don't at all take that for granted. Everybody at Guidewire works incredibly hard to make sure that that remains true. But we've done very well for the past couple of years, and it's going to continue. I have confidence it can continue to improve. And I think that that is what's behind this like uptick in the perspective of these customers.

Alexander Sklar

Analyst, Raymond James & Associates, Inc.

Okay. Great color. Appreciate that. And then, Jeff, maybe one for you. I appreciate all the color on the ARR outlook for the second half of the year. We're sitting here a little over halfway through the full year. Any color on

Q

what premium growth coming across the platform looks like year-to-date? And what's kind of factored this year from that premium growth versus prior years?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I mean, we obviously provided a fair amount of color into the ARR seasonality dynamics and what we're seeing coming off of the backlog and just how that creates a lot of visibility into the model. With respect to direct written premium true-ups and that type of activity, we're seeing a continuation of that being a somewhat modest tailwind to historical patterns. So, as insurers take some rate and that flows through into our model, that is a bit of a tailwind.

And then, we are seeing some new customer wins. That's for – a couple of years ago, those were somewhat on the sidelines. So, we're starting to see, and we talked about five new customer wins in the quarter. But to really move the needle on the premium on the new customer side, you need some really large accounts to come across.

And so, I would expect it to be not too different from historical patterns and we'll certainly call out some of the bigger guys that if we see some new large customer wins. But I would expect that pattern to be pretty similar to recent years.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks a lot. Next question comes from Goldman Sachs, Adam Hotchkiss.

Adam Hotchkiss

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much for taking the questions. I guess Europe was a notable call out for you guys. Can you just bifurcate how the cloud conversation is evolving between the major geographical footprints and maybe any notable similarities or differences you're seeing in those conversations would be helpful.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. Thanks very much. Certainly, if you think back over the past five years, there was a trend towards America, Canada leading the charge. But in the last, I don't know, I want to say six quarters or so, we've really seen a step up all over the globe, like we have successfully won and implemented cloud deals all over the world, Asia-Pacific, Japan, Europe, multiple countries in Europe.

So generally, I think that the business model, the concept, the approach, it's been – it's well vetted, it's well accepted. There's still concerns, but it's not so much about cloud, it's just – there's other things. It's not like a philosophical difference in architecture. The architecture is sound and the architecture works and we've got customers that can validate that it works all over the world, in every country that we operate. And so whereas it was kind of led by America and followed by EMEA and APAC, certainly there's probably a difference just because of the lead times, but we are seeing strong support and momentum in each of the theaters where we operate now.

Adam Hotchkiss

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Got it. That's super useful. And then I just wanted to touch on the sort of non-core InsuranceSuite opportunity here. Anything anecdotal you're seeing in some of your more seasoned cloud cohorts and willingness to take on non-core products? Just anything on that opportunity and how that's evolved would be helpful.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. That part of our business remains healthy. We have a collection of analytics products that are doing just fine. In some ways, it's like the success of our core business somewhat like usurps our focus on the add-on business, which is okay, not okay. It's one of those things that maybe I should try to get both things accelerating fast. But certainly, the business and the future of the company is so dependent on the core success. And when we can see that, we tend to put a lot of our energy behind those deals just because those relationships will last for decades. But the non-core assets specifically predict we've got HazardHub doing quite well, where we provide property risk analytics at a geographic level. It's like those things are doing great and we don't talk about them as much when we have great quarters on the core system side, like I said, because those are so much – that is so strategic to the add-on opportunity down the line, but that part of the business is doing well too.

Adam Hotchkiss

Analyst, Goldman Sachs & Co. LLC

Q

Great. Really helpful. Thanks so much.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Adam. Next question comes from Parker Lane at Stifel.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey, guys. Thanks for taking the questions here. Mike, nice to see the full suite momentum that you called out in the quarter. Just wondering, when you look at the advantage of going full suite on cloud, how would that compare to what customers had done on prem with full suite in the past? And what is getting these customers that are going full suite across the goal line? Is it a procurement advantage? Is it a data advantage? Are there other factors out there? What are you seeing today?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

I think the biggest thing – the biggest thing is our proven track record of success. Okay. This is the most important thing. Whereas maybe if you're hesitant about is this really going to work and is this the right model, then you're kind of going to make a decision that's like, what do we need, what is the burning platform that we need to make a decision on right now and then delay that secondary decision into some future period. The more confidence that we can create in the market based on our track record that ultimately this makes sense, there's more incentive for us and for the customer to sort of do that full suite deal all at once. And I think that is the business dynamic that's really driving this. We are – it's very clear like we – so it's kind of simple, right? We have three applications. I called them out. Right. What do you use for claims? What do you use for your policy administration? What do you use for your billing platform? That conversation you can imagine is going to happen every single time we talk to a customer about any of those applications.

And so to the degree that there is confidence that ultimately we are going to go with you for the full suite, it's logical to then turn that into one deal. When there's anxieties about is this the right platform and is it really going to

work and is it kind of like from a couple of years ago, there's a sense that it like logical to delay that decision. But more and more, it's just a little bit more straightforward for us to be able to make a full suite argument right at that initial point of sale. Now, it doesn't happen every time. And some customers, based on the complexity of their implementations and the lines of business that they run, it doesn't make sense to do that. So it certainly doesn't happen every time. But that conversation does certainly happen as part of the deal cycle for us.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got it. And in a similar vein, you also called out some expansions at the time of cloud migration. When you look at where we're at today versus the early days of cloud, maybe three, four, five years ago, how much more often are you getting a foot in the door with these expansion conversations? And what has made the platform, I guess, more ready for customers to expand their relationship, not just make the pure transition to cloud?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Well, those types of expansions have to do with additional lines of business, so when I – the picture that you have in your head for a typical Guidewire legacy customer running a mainframe, it's not just one mainframe, there's usually multiple systems running, covering multiple lines of business, it's very complicated. And the track record we have for being able to support multiple different lines of businesses, lots of complexity on the platform, creates confidence that, hey, let's make a decision to move all of these current legacy workloads, legacy applications to Guidewire, that creates that extension and that growth in what you can do with Guidewire and that creates the add on, the additional DWP, the additional premium, the additional ARR. It's just our – the fact that we've proven that we can do multiple things with the platform in the cloud and support different lines of business creates the opportunity to expand when we have those – when we do this deals with customers.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Understood. Appreciate the feedback here.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Thank you.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Our next question comes from Aaron Kimson at JMP.

Aaron Kimson

Analyst, Citizens JMP Securities LLC

Q

Thanks for the questions. First one, how should we think about relationships with the state-backed property insurers such as FAIR Plans and Citizens Plans? It seems like these are becoming a more important part of the P&C market in disaster-prone states, which are also often densely populated and have high property values. Is there anything unique to call out about how these relationships work and do you anticipate they'll grow as a percentage of Guidewire's business over time?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

I would say nothing particular to call out about them being unique. They basically operate as insurance companies, they're slightly different, obviously. But there's a lot of different kinds of insurance companies that we serve all over the world. And so, we have a fair number of relationships with these types of entities and we're excited when they come to market to win those deals and win that business and serve that segment of the market as effectively as we can. I don't know whether or not I would make a projection as to the ratios that will ultimately land in these sorts of state-backed models versus the for-profits and the mutuals. I think generally, even when you talk to a lot of the executives that are operating these FAIR Plans, they're not exactly driving to grow these entities. They need to exist, they need to fill these gaps that exist in the markets, but they're not like aggressively trying to grow them. So I would be surprised if they grow as a percentage, but it's hard to say exactly because lots of things can change.

And certainly, the environment that exists with respect to weather-related risk and the increasing severity – frequency and severity, economic losses associated with these weather events kind of tends to push the more and more of the premium towards those entities. But we're here to sort of serve everybody in the industry as best we can, as efficiently as we can and from a platform perspective, we're able to serve those companies as effectively as anyone and in my opinion, better than anyone. So, we're excited to support them as part of the customer base.

Aaron Kimson

Analyst, Citizens JMP Securities LLC

Q

That's really helpful. And then second one is, I guess, at a lot higher level. Guidewire's share of total DWP has gone from about 14% in FY 2016 up into the low 20s more recently. How big a slice of that pie do you ultimately think you can capture over time based on the product vision and what you're seeing competitively? Thank you.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

I need to say 100%, you know, like that, right. Look, certainly, it's hard to imagine that we'll get to 100%, but I think greater than 50% is not at all absurd to say. I believe we are creating very significant scale benefits. We are bringing scale benefits to the industry and we are creating more and more network effects to the industry. And that will help us serve the industry more and more effectively the greater the percentage of the DWP that we serve. This is part of the strategy of our company. If you stretch all the way back to when I first joined, probably before I joined, this is part of the strategy. It's incredibly expensive to build a system that does this effectively. It's an incredibly complicated system that we operate and we can do it because we have the scale. We can do it well because we have the scale to do it well and that's beneficial to the industry and that's going to create an opportunity for us to push north of 50% of the market. That's our intention and that's our goal.

You think about shared data on the platform that we can create more value for customers using the system. You think about the incredible ecosystem of partners and business applications that customers can benefit from by being part of the Guidewire community. Like these are things that are going to help us get more and more competitive and bring more and more value, honestly, to our customers as the whole ecosystem grows. So that's absolutely the vision is to keep pushing that percentage higher and higher. And yeah, my goal is 100%, but I don't think it's at all – I don't think it's a stretch to say that we can push that above 50%.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Aaron. Next question comes from Joe Vruwink at Baird.

Joe Vruwink

Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks for the time tonight. On the new logo tally was really impressive this quarter. What's the conversation like with the new logo opportunity at this point, particularly abroad, where I would think you're going up against typically sort of local vendors in the mix and the locals tend to have their own longstanding relationships?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, it's a great question. I kind of pointed to this in the comments we made at the beginning of the call is when we're abroad, we typically have a certain degree of investment that we need to make in, what we call, local content and localizing the product to the particular business requirements and integration requirements that exist in a certain market. And so when we are competing against those local vendors, they typically will have that part of the equation maybe solved a little bit better than Guidewire, but less functionality with respect to the core platform and the broader ecosystem capabilities that we can bring to bear. And so that's kind of the competitive dynamic. I mean, we're, I would say, very, very successful, especially in the big multinationals where they're making decisions not just in one specific country, but they're thinking about a collection of entities that exist in multiple countries and very often a sort of center of excellence related to Guidewire enables them to share best practice across all of those entities and we can be very, very successful in those sorts of environments.

But our commitment, part of that investment that I kind of – when I was answering the question about Generative AI, like part of the investment where we're like prioritizing is making sure that we have this local content and making sure that we can compete and win in Germany and that we can compete and win in France, that we can compete and win in general insurance in the UK, that we're successful in the London markets, that we're successful in Japan, we're successful in Australia. I'm just like ticking down all the teams that we have at Guidewire, thinking about these markets. And so I'd say like the overall success of the company and momentum generally is helpful and then also our ability to invest in these local requirements is helping us earn the trust, let's say, of these local entities and winning business worldwide.

Joe Vruwink

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's great. Obviously, thinking about the Connections, there kind of was a lot of focus on the fact that half the customer base had made some level of cloud commitment. So nothing wrong with being in the 49th percentile just maybe avoid risk that the 1st – 51st end up seeing. But I wanted to ask, it does seem like the momentum is picking up. So can you say at this point in time whether the 49th percentile of customers that still remain out there, are they going to move much quicker to adopt cloud than the first half ended up taking? So when thinking of the overall timeline, we shouldn't take up until this point times two, it's going to be some factor shorter than that?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

I think it's fair that it should be some factor shorter. I don't know that I've ever personally like specifically done that math and could give you a more objective answer, but logically it should go faster. I think the other characteristic of it is, is that we've had to or we've decided to be more specific about how exactly support for the on-prem versions of Guidewire will work over time and that also will tend to shorten that time period. But ultimately, I think what is the most – kind of the most important thing is this is working and this is delivering real business benefits

and the industry sees that. And I think that's what's going to drive – that's what's going to create or is creating, it's not going to create, but is creating this steady acceleration in the move to cloud.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. And from my perspective, Joe, from a modeling perspective, as we looked at migration activity that we experienced in 2023 and 2024, it was pretty healthy. We've looked at kind of pretty steady progression into how we migrate the rest of the install base. Certainly, a lot of scenarios where that would be faster, especially as we start having some meaningful conversations that Mike alluded to around what is the support schedule for on-prem looking forward, but we've tried to model it pretty conservatively.

Joe Vruwink

Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Thank you.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Our next question comes from Richard Poland at Wells Fargo.

Richard Poland

Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks for taking my question. I just kind of wanted to talk a little bit about the Q4 seasonality dynamics this year. I understand some of it's being driven by those ramp deals, but wanted to get a sense for if you could kind of ballpark for us how much in a typical year might come from net new versus the backlog and anything to call out this year that's kind of different from prior years.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I mean, the three primary components to the build for ARR is bookings that we sell that translate into year one ARR right off the bat, the ARR that comes off the backlog from ramps and then any ARR attrition that we may or may not have in a given year. We don't typically give a lot of disclosure to – a lot of detail around kind of how those components track or how they compare. Just from a qualitative perspective, this year, we are seeing very healthy growth year-over-year, so kind of think faster growth than in any other segments in the ARR that's coming off of the backlog and that's a function of some of these ramping deals that we've talked about and cohort analyses at Analyst Day over the last couple of years. You may remember in fiscal 2023, coming out of fiscal 2023, at the Analyst Day, we talked about the cohort that we sold in fiscal 2023 and how they had pretty significant ramping events in the third year, which equates to our fiscal year 2025. So, we're seeing the realization of that.

The other dynamic that we're seeing this year as we go through in detail all of our renewal events is we're just – we're seeing very healthy ARR attrition. So, I'm optimistic we can have some of the lowest ARR attrition numbers this year than the last five, six years. And so that's been a positive backdrop as well.

Richard Poland

Analyst, Wells Fargo Securities LLC

Q

Okay. Great. Super helpful context there. And then just kind of around, we talked a little bit about consolidation earlier and if you look across policy claims billing in the installed base, of those three core components, is there any one in particular that stands out as maybe being underpenetrated in the base or any context around how you guys try to block and tackle opportunities like that?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. I would say generally ClaimCenter has a very, very strong footprint and so there's a lot of PolicyCenter upsell. We typically sell BillingCenter and PolicyCenter alongside one another. And every once in a while, this quarter being an example, we'll do a BillingCenter deal. But typically, if you're – but you see examples of PolicyCenter leading the charge as well, so you see all of the cases. But I think the company had a long – we've had a long track record of very successfully selling claims implementations and that's established just a very strong base of claims.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I would – we obviously started with the ClaimCenter product and so the installed base there is a bit more mature. But if you look at sales activity, it's pretty balanced across PolicyCenter and ClaimCenter. BillingCenter usually attaches to PolicyCenter. It is unusual to lead with a BillingCenter instance, so that's kind of an interesting pattern for us. And I think a big part of that is the opportunity to then grow into PolicyCenter and ClaimCenter. But if you look overall, it's been pretty balanced.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks, Richard. Our final question comes from Michael Funk at Bank of America.

Michael J. Funk

Analyst, BofA Securities, Inc.

Q

Yeah. Thank you for taking the question. One quick one, actually. So earlier, you mentioned the one competitive takeaway during the quarter, I think, at a subsidiary of a larger insurer. Question, though is, what factors do you think functionality or otherwise that is contributing to the competitive takeaways? And are you seeing a shift in the competitive landscape, either in your favor or maybe competitor is now getting more aggressive?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. I think you're typically going to see a competitive takeaway when either there's some upgrade cycle that is necessary on the competitive installed application that where there's a desire to reassess and decide for a new platform or a failed implementation, we see both. There is a, like I call it out, just like we're so focused on these successful implementations that there is a possibility that these implementations just don't succeed and so they'll go to market and get a new vendor to run the program. And so we see both of those. Sorry, second half of the question? Tell me again what...

Michael J. Funk

Analyst, BofA Securities, Inc.

Q

Yeah. I mean, [indiscernible] (01:00:57) the competitive landscape is shifting...

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Oh, yeah.

A

Michael J. Funk

Analyst, BofA Securities, Inc.

...but maybe [ph] that's now contained (01:01:01) with your comment there, though. I don't think I'd name names, but failed implementations, just failure of onboarding, is that a widespread issue or are there specific competitors maybe where the service level, the onboarding has deteriorated, that has opened up the opportunity for you to win these competitive takeaways?

Q

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Well, look, there's two different things. One, I want to be very clear, like we still compete for all of our deals. It's still a competitive marketplace. And I think the win – we've talked about win rates steadily improving quarter-over-quarter. So and I think that a lot has to do with the track record of success and the investment that we've been able to make in the progress – in the products, excuse me, and the applications in the platform and the products. And so steadily, those win rates have improved. But we're competing on almost every deal that we win. That's kind of distinct from what I would say is like a competitive takeaway, where we'd like – we call those out just because they're sort of unusual because once you pick one of these, once you pick a vendor and you start a program and you start implementing and it's couple of years in, kind of there's a lot of opportunity cost to switching. And so, we are seeing that and we do see that every once in a while and we try to call it out because I think it kind of speaks to positive potential for us down the line.

A

But I would say generally it's a competitive market and we compete all over the world with different vendors and but like I said, steadily improving win rates that we're very, very happy about. And Jeff called that out in terms of one of the things that we're starting to say is like now we can sort of start to expect that. We've seen enough quarters in a row where we feel like we've got an advantage in certain circumstances.

Michael J. Funk

Analyst, BofA Securities, Inc.

Great. Thank you for hanging over for me, guys, I really appreciate you giving the time.

Q

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Hey, it's not a problem at all. Thank you.

A

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Yeah. That was our final question, so turning over to you.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Okay. Well, hey, I just want to thank everybody for joining us on the call. It's a great quarter, couldn't be more excited about the second half and the momentum that we've established. And we look forward to talking to a lot of you throughout the quarter. Otherwise, we'll see you on the Q3 call. Thanks very much.

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