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Guidewire Software, Inc. (GWRE)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Greetings and welcome to the Guidewire First Quarter Fiscal 2026 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 like to now turn the call over to Alex Hughes, Vice President of Investor Relations. Thank you, Alex. You may begin.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Thank you, [ph] Grace (00:31). 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 in 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 and 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 other documents we file with the SEC, including our

annual report and quarterly reports on forms 10-K and 10-Q for information on risks, uncertainties and assumptions that may cause actual results to differ materially.

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 IRR website.

And with that, I'll now turn the call over to Mike.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Thanks, Alex. And good afternoon, everyone. Thanks for joining the call. We're off to a great start to our fiscal year, delivering results ahead of expectations across all key financial metrics. And we're seeing continued momentum in our business. Five years ago, we launched Aspen, the first release of Guidewire Cloud Platform with the goal of enabling property and casualty insurers to engage, innovate and grow efficiently. Today, with Niseko, our 14th release, we're experiencing tremendous success across the industry and around the world, and we continue to see accelerating adoption of our cloud products and services.

Reflecting on this success, we got four important [ph] fittings (02:29) right. We met insurers where they were in terms of their operational complexity and the investments they had already made. We designed agility and extensibility into the platform to unlock innovation. We invested in and fostered an ecosystem of partners to help drive our vision for our cloud-based core system powering the P&C industry. And we worked tirelessly to ensure every project and customer was successful. Our Q1 outcome and continued momentum are direct results of these decisions and hard work.

Additionally, the timing of our platform maturity aligns us well and leaves us well-positioned for the advent of generative AI. The potential for generative AI in the P&C insurance marries extremely well with our platform's extensible design and now creates opportunities for us to unlock greater productivity, platform value and new products that leverage our vertical data and business process expertise. We believe these elements together position us to dramatically improve insurer outcomes and fulfill our enduring mission of enabling insurers to innovate and grow efficiently. This means our platform can now go wider and deeper with a greater portfolio of applications and tools that harness data and AI.

In October, we hosted Connections, our annual customer conference. This year, over 3,500 attended from across the industry, and we laid out this next phase in our plan, which we see as a logical next chapter for Guidewire now that we are confidently through the most difficult part of our cloud journey. As we go forward, our goal is to focus more and more of our energy on this new opportunity. We have spent many quarters discussing Guidewire Cloud and our progress transforming our company and customer base. This effort will, of course, continue and we have a lot of runway left. But we will also begin to focus more of the conversation on everything we are positioned to deliver for the future.

So today, I'll spend a minute giving you a high-level update on the continued strength we saw in our core business through Q1 and then elaborate on our new products and opportunities. Jeff will then discuss our financial results and updated outlook.

So let me begin by mentioning a few key highlights from the quarter. Following a record Q4, we saw continued momentum with another eight cloud deals in Q1. ARR grew 22% year-over-year and 21% on a constant currency

basis. We had five significant deals in North America led by major insurers, the Hartford and Sampo. We had three international deals, including a major win at one of the UK's most respected mutual insurers, a significant migration at a major insurer in Japan, and a great win at a large Australian-based insurer. It was also great to see six of these eight wins expand to include one or more of our data and analytics offerings. All this momentum was driven by the factors we've shared before, our cloud maturity, track record of customer success and a resilient global P&C insurance market that continues to modernize.

Based on this success, we now have the opportunity to go wider and deeper with applications targeting our customer base. Two areas where we are excited to extend our platform are in pricing and underwriting. Insurance suite will include new applications, PricingCenter and UnderwritingCenter alongside PolicyCenter, BillingCenter and ClaimCenter. Both new applications represent significant market opportunities that address the industry's need to overcome very fragmented and manual processes that negatively impact their speed to market, loss ratios and growth. By building PricingCenter and UnderwritingCenter on our unified cloud foundation and connecting each seamlessly with our other insurance suite applications and analytics products, we believe we can significantly improve insurers' agility and performance. With PricingCenter, actuaries can bring models to market faster with greater precision and control. And with UnderwritingCenter, underwriters can improve risk selection, streamline operations and accelerate quote turnaround times.

And with agentic AI capabilities infused in both of these applications, insurers have the potential to dramatically improve on long-standing business constraints. One aspect of this new product portfolio that I'm particularly excited about is the potential to combine generative AI data and critical workflows that run on our applications. Our recent acquisition of ProNavigator is an excellent example of this. ProNavigator is an AI-powered knowledge management platform, trained and tuned specifically for the insurance industry. By integrating ProNavigator into Guidewire applications, we can now deliver instant context-aware guidance and answers to the people using our applications. This sort of in-context guidance is a first step in generative AI deployment to insurance workflows and can upskill every user of Guidewire application.

In addition to providing us the opportunity to launch new products, Connections was also an opportunity for our broader ecosystems to come together. As I have said many times before, this ecosystem of partners and the innovation we have developed together have been a significant factor in our success to date. ProNavigator, in fact, is a great example of this as a graduate of our Insurtech Vanguard program, which is our initiative to identify and mentor promising startups.

Before handing it over to Jeff, I'll just summarize my key takeaways from the quarter. We continue to see accelerating adoption for Guidewire Cloud Platform and have plenty of runway to continue growing our core business. At the same time, we are extremely excited about the opportunity unlocks for us in new products, innovation and generative AI, and these new product areas are very much where we are focused now. We are thrilled with the early reception that our expanded product portfolio has received and look forward to sharing more with you over time as we progress with these new offerings.

With that, I'll turn it over to Jeff to walk you through the financial results.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Thanks, Mike. We are off to a great start. Q1 saw record sales activity for a first quarter and a clean beat across ARR revenue and profitability expectations. We continue to be thrilled with the momentum we're seeing in the business. ARR ended at \$1.063 billion, up 21% year-over-year on a constant currency basis and ahead of our expectations. Total revenue was \$333 million, up 27% year-over-year, reflecting strong performance across all

segments. We continue to see strong subscription and support revenue growth as customers migrate to cloud and new insurers adopt our cloud products. In the first quarter, subscription and support revenue grew 31% to \$222 million. Counterintuitively, license revenue grew 12% to \$42 million.

In general, we expect license revenue to decline as we continue to migrate customers to cloud and drive subscription revenue growth. However, in the first quarter, licensing benefited from a large annual term license renewal after the end of a multi-year commitment entered into in 2020. As a reminder, revenue related to multiyear term license contracts are generally recognized upfront. And as a result, no additional license revenue is recognized until the committed term expires. Professional services revenue finished well above our expectations at \$68 million, reflecting high utilization and effective collaboration with our SI partners.

Now, let me turn to profitability for the first quarter, which we'll discuss on a non-GAAP basis unless stated otherwise. Gross profit was \$219 million, up 32% year-over-year with a gross margin of 66%. Subscription and support gross margin reached 73%, continuing to track ahead of expectations and professional services margin improved to 23%. We are seeing higher services demand and have a healthy backlog that we are executing against, which will require a bit more investment in utilization of subcontractors for the remainder of the year. But this is strategic for us as we continue to ensure every cloud program is successful.

Operating income finished at \$63 million, up 83% year-over-year. Overall stock-based compensation was \$43 million, up 14% from Q1 of last year. Operating cash flow ended the quarter at negative \$67 million. As a reminder, annual employee bonuses and commission expenses related to Q4 sales are paid out in Q1, and Q1 cash flow finished consistent with our expectations. We ended the quarter with over \$1.4 billion in cash, cash equivalents and investments.

Now, let me go through our updated outlook for fiscal year 2026. Starting with the top line, we are very pleased with our first quarter performance and the continued strength and quality of our pipeline. As a result, we are raising our annual outlook for ARR to be between \$1.220 billion to \$1.230 billion. For total revenue, we now expect between \$1.403 billion and \$1.419 billion. We expect approximately \$891 million in subscription revenue and \$948 million in subscription and support revenue. We now expect services revenue to be approximately \$245 million, given the better than expected services revenue in Q1 and our higher utilization rates. We expect our acquisition of ProNavigator, which closed early in Q2, to add approximately \$4 million of ARR and \$2 million in revenue.

Turning to margins. We are increasing our expectations for subscription and support gross margin to be between 72% and 73% for the year. We expect services gross margins to be between 13% and 14%, which is lower than Q1 as we are investing in additional capacity, building our AI initiatives to improve efficiency in the future and leveraging a bit higher subcontractor levels. Overall gross margins are expected to still be 66% for the full year, as higher subscription and support margins are offset by higher services revenue mix.

As a result of raising our revenue outlook, we are also lifting our outlook for operating income. We expect GAAP operating income of between \$72 million and \$88 million, and non-GAAP operating income of between \$266 million and \$282 million for the fiscal year. We are raising these expectations while also absorbing the incremental costs associated with the acquisition of ProNavigator. We expect stock-based compensation to be approximately \$185 million, representing 13% growth year-over-year. We are adjusting our expectations for cash flow from operations for the year to be between \$355 million and \$375 million. Our CapEx expectations for the year are between \$30 million and \$35 million, including approximately \$18 million in capitalized software development costs.

Turning to our outlook for Q2. We expect ARR to finish between \$1.107 billion and \$1.113 billion. Our outlook for total revenue is between \$339 million and \$345 million. We expect subscription and support revenue of approximately \$229 million and services revenue of approximately \$58 million. We expect subscription and support margins of approximately 73%, services margins to be around 9% and total gross margins around 66%. Our Q2 outlook for non-GAAP operating income is between \$68 million and \$74 million.

In summary, this Q1 saw record sales activity for our first quarter of the year, which is a great start and we are very excited for what is ahead.

Alex, you can now open the call for questions.

QUESTION AND ANSWER SECTION

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks, Jeff. Our first question is going to come from Dylan Becker of William Blair.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Hey, guys. Really appreciate it here. Maybe, Mike, starting with you, we've talked a lot about the idea of kind of operational agility and it's evident with the new products in PricingCenter and UnderwritingCenter. Maybe wondering if you could you could dig a level deeper and kind of give us some or maybe a sense of what those opportunities look like. And maybe if there is an unlock as you go deeper in that domain to kind of tether and attach more momentum across the existing core suite [ph] to be thinking (15:54) PolicyCenter in particular as that feels like a logical area of kind of attach between those two segments.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Well, sure. For sure the strategy around both of these products is to target our customer base. And I think that the integration that we're building and the fact that their builds are being built to run on our platform and seamlessly connect with the applications. But also the data platform is a real important differentiator for these products and something that helps drive the agility that you were talking about. But if you want to certainly understand why this matters for an insurance company, these companies are, number one, sometimes trying to grow, sometimes trying to expand with new products and also always trying to just get their prices right. And the more flexibility we can provide them about modeling and estimating with their actuarial teams, what the right structures are for pricing the insurance products and getting those things into actual production deployment, the more effective an insurance company they can be.

Now, that gives them flexibility to, like I said, expand into new markets or add or change the existing products that they have. I think it's been pretty frustrating, I think, for the industry in general just to have such a long lag time between the concept that you know you need to make a price change to where you can actually affect that price in market. And that's what PricingCenter is designed to help alleviate. I think it's going to have a direct impact – a very direct and positive impact on our customer base and the customers that choose to deploy that with us.

On the underwriting side, the thing that's super exciting here is just giving the industry, in general, this ability to respond more quickly and more effectively to submissions that they receive from brokers. It's just a real – it's a

real frustration across the board. You talk to every insurance company and they've got great teams of underwriters. But dealing with all the manual paperwork and reading documents and assessing risk, it just takes so much time. And modern systems, especially with generative AI, are going to take a big – actually have a big improvement in terms of the operational efficiency of these underwriting departments. And so that's kind of how it affects the industry and how I think we're well-positioned to be able to attach it to new PolicyCenter but also existing PolicyCenter implementations.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Let me – sorry. I was stuck on mute there. No, that's very helpful. Thank you, Mike. And then maybe switching over to Jeff, if we think about kind of the incremental investment you called out on services, obviously, there's a lot of opportunity it sounds like here. How should we think about kind of the outsized momentum you're seeing on the services front? Is that a good indication of kind of some of the subscription momentum that's expected to come as you're doing kind of more of this process change work and really maybe indicative of the underlying kind of demand environment and how sustainable that is at the end of the day? Thank you.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I think Q1 in particular was benefiting from a couple of larger programs that the teams have been working hard on. I think the services organization has done a great job partnering with the SIs to meet the demand environment that we're experiencing. It's hard to read through to just our services revenue line and take that as a proxy of overall demand for what we're trying to accomplish because it really is spread across the entire ecosystem, and we do that very purposefully. I think one thing that we are – there was a couple of areas where we're making investments. We do believe that, over time, generative AI can help us bring down the cost of implementation and that can have a pretty meaningful pull through to demand for our products. So we're investing in that and we're excited about the early potential that we're seeing there.

And then there's also new product areas. Our services organization often has to act as the tip of the spear around new products. And so investing to make sure that we're ready for that demand. And then we'll work in concert with our partners to enable them as we work through that early demand that we see with some of these newer products. So that's what's driving a lot of the investments we're making and we feel very good about those investments. It is shifting a little bit. We are seeing some higher services revenue expectations this year than maybe we would have thought a couple of years ago. And we think that that's generally healthy.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

All right. Thanks, Dylan. Our next question is going to come from Alexei Gogolev of JPMorgan.

Alexei Mihaylovich Gogolev

Analyst, JPMorgan Securities LLC

Q

Thank you, Alex. Hello, everyone. Mike, in recent quarters, you had a number of very large customers migrate to the cloud. Are you seeing more consumption of all three key products simultaneously rather than business line by business line? And what is driving the change in the consumption pattern?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

I'll start by answering the second half of your question. I think what we're seeing is the sort of the benefits of the actualization of a lot of great hard work in close partnership with our Tier 1 customer base around what it would take to convince them that we could deliver a cloud at scale that was reliable and secure enough to support their mission-critical workloads. We have worked tirelessly over many, many years of many releases to earn that trust. And you're seeing that now payoff in these deals materialize.

Now, with respect to migrations, a lot of that, as you know, relates to either what they're already running with Guidewire and a commitment to move that to the cloud, which I would say sort of more often than not involves the sort of the complete landscape of what they're running with us just because it makes sense to negotiate the whole thing all at once. Very often that if it makes sense for them strategically to look at the modernization of another component of their architecture, say, claims if they're running policy or policy, if they're running claims, that is very often the case. But we only see a few of these every quarter. So it's tough to say that there's a pattern emerging.

But the biggest, biggest pattern that I'd say is now like very, very clearly happening is that we are showing that we can run this at scale for the largest insurance companies in the world. And we're earning that trust and we're kicking off these incredible programs with these companies that we're excited to deliver on. And I think it's going to be a great thing for the industry. It's going to be great thing for these customers. It's going to be a great thing for Guidewire. These are commitments that we expect to last for decades. And we're very happy that we've been able to earn this trust and we're excited to step up and deliver on behalf of these customers.

Alexei Mihaylovich Gogolev

Analyst, JPMorgan Securities LLC

Q

Thank you, Mike. And, Jeff, if I could maybe ask you on the ARR guidance. Exactly a year ago, you kept ARR guidance unchanged. This year, you're raising it after Q1. I'm just wondering if there are any components in your current growth guidance where you aim prudently but still somewhat conservative and what might those components be?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. And I appreciate the question. It is atypical for us to raise our outlook at the end of Q1. We kind of think about our progress towards some of our annual targets. This Q1 was a little bit unique in terms of the size and scope and the deal activity we were able to close in Q1. So I think there are elements of that that informed how we thought about adjusting the guidance. Obviously, we took a deep look at the pipeline and feel confident in the strength of the pipeline. The third component is, we made an acquisition in ProNavigator and we expect that to add about \$4 million. So that's part of the incremental raise is related to that acquisition of ProNavigator.

And then finally, just some of the early market feedback, it's still very early. So this won't contribute in large ways. But some of the feedback we're getting on the newer products is exciting and that gives us a little bit of confidence as we think about the guide for this year.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Alexei. Our next question comes from Ken Wong of Oppenheimer & Company.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Fantastic. Thanks for taking my question. Maybe building on that last note and this could be for Mike or [ph] John (24:54) on the interest for Underwriting (sic) [UnderwritingCenter] (24:56) and PricingCenter, how should we think about the timeline for adoption there? Like would it mirror something like PolicyCenter, which was a heavier lift and did require customers to take a kind of a longer look at it? Or could it be closer to something like claims where there was much faster adoption in the early days? What's the feedback you've been getting? What are some of the stumbling blocks that could kind of stall that particular path to migration?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. Thanks, Ken. I would say it's slightly different in that I think there's an opportunity for us to position this a little bit more incrementally or greenfield, that may be ClaimCenter or PolicyCenter where you're very clearly replacing a system of record. Certainly, there's something that we're replacing but I think that the go-to-market motion, while new for us, I think it'll evolve to be its own kind of unique. And I expect maybe a little bit faster than either of those other two core products. Now, we still got some work to do to prove that out. But as Jeff said, the initial response and the receptivity to the architecture and the concept and what we're setting out to do has been very positive and, certainly, giving us enough interaction with customers and prospects to be able to validate that we're on the right track.

And so I would say just to kind of repeat what I said is, like, I expect it to be slightly faster. It's certainly not going to be something that's superfast and these are big decisions for companies to make, but it doesn't have to be a sort of all or nothing complete replacement is something the way these big core system of record implementation and decisions are.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Fantastic. Super helpful, Mike. And, Jeff, just on the subscription and support gross margins, saw really nice uptick this quarter. Is that just kind of further efficiency gains or is there some timing of AWS credits or any other one-ish items – onetime items that we should be aware of?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

There was a very small contribution of some onetime items, so that did impact the quarter but not – it is pretty small. Those are becoming less and less meaningful. I think it was just good progress that we've made in driving efficiency and we're pleased to be able to raise the guide for the year as well. So the team has done a lot of work here across the finance organization, the engineering organization, customer success to help us tackle the efficiencies there. And so I think that's what you're seeing.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Fantastic. Thanks a lot, Jeff.

Operator: Great. Our next question comes from Michael Turrin of Wells Fargo.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey. Thanks very much. Appreciate you taking the questions. I mean, the growth rates of the business continue to trend higher. I know it's a seasonally lighter period, but you're clearly reaping some of the rewards of the last year. Just maybe help us stack rank the drivers of what you're seeing and if that at all shifts based on early feedback coming out of Connections. And, Jeff, is there anything from a seasonal perspective we should be mindful of as we're just kind of rolling some of the numbers forward from a sequential basis on the top line?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I'll give you a perspective on drivers. So we're very happy with the pace of migration activity, and we are very – we continue to be very, very happy with the competitive win rates and just general demand for our core system deals in the industry worldwide. So we're just – those two things together just give us a lot of baseline confidence in the business. And as you can imagine, these sorts of deals are very considered, which gives us a lot of visibility into the forward pipeline and gives us the confidence, as we did this quarter, to raise the guide based on the perspective around the fiscal year. And then you add on top of that is the growing momentum in these new products.

And like I said, the reception that we got at Connections to these new products was phenomenal, creates a lot of excitement in the customer base but also our sales organization and gives us an opportunity to line up this sort of like new vector of growth to the company. And so that's, basically, how I would stack things up, like, migration, general demand for core systems, win rates going in our direction, building momentum quarter-over-quarter and then these new products giving us even more confidence in what we can produce as we proceed through the year.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

And the only thing I'd add on the seasonality is just to reinforce what we talked about at our Analyst Day, at Connections, the one dynamic we're seeing this year is a little bit of a headwind with respect to ARR coming off of the backlog in Q3. So I think we communicated that to you all at Analyst Day and just wanted to reinforce that message. Nothing new coming out of Q1 to highlight.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Great job with the start of the year. Thank you.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Thank you.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Thank you.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks, Michael. Our next question comes from Adam Hotchkiss at Goldman Sachs.

Adam Hotchkiss*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks so much for taking the questions. I wanted to ask another one on AI. When you think about some of the non-core software vendors that have come out with AI use cases for insurance and I think we've all seen headlines of those in the last number of quarters, maybe just talk about what your philosophy is in terms of competing versus partnering or allowing access to some of these third-party AI use cases and just more broadly your sort of view and stance towards competitors from an AI perspective.

Mike Rosenbaum*Chief Executive Officer & Director, Guidewire Software, Inc.*

A

Yeah. I appreciate the question. And I don't know for those of you who are closely following us, this was one of the key messages that we attempted to articulate very clearly at the Connections user conference. I think the most important thing for you to understand about Guidewire as an investor or as a customer or as a partner, is that our job, our mission is to be the core system of record for the P&C insurance industry worldwide. And we need to be an open platform, we need to invite these insure techs to build against our system of record. If that is something that they want to do, we want our customers to feel confident that a decision to move to Guidewire does not curtail them, does not constrain them at all.

Now, obviously, we are going to build first-party generative AI capabilities and features and products on top of our platform and we'll offer those to our customers. But this is a space that is moving and evolving so quickly that it just doesn't make strategic sense for us to not be – take an open approach. And so what you're going to see from us is this kind of philosophy that the most important thing is to win the core. The most important thing is to invite the innovation in and around our core, continue to create a strong ecosystem and use everything in our power to deliver as a first-party generative AI-powered features and capabilities that bring our customers more value based on their investment in Guidewire. But that's going to come from us and it's also going to come from the ecosystem.

And so I tend not to think of these companies or these headlines really as competition to guidewire as much as an opportunity for us to really lift all boats in the industry. We tried to highlight this at the Analyst Day with respect to sort of understanding the business dynamic in the P&C insurance industry overall. There is so much potential for generative AI in this industry that it's not going to be a winner takes all kind of situation with respect to GenAI and automating workflows and making the insurance industry more efficient. There's going to be many companies and many people and many organizations that benefit from that effort over time. Like I said, our goal is to foster that innovation in the industry, not compete with it.

Adam Hotchkiss*Analyst, Goldman Sachs & Co. LLC*

Q

That's really helpful. Thanks, Mike. And then I wanted to talk about just at your existing customers, the propensity or increasing propensity to actually move more quickly across lines of business. I think we talk a lot about the three suites and the increase in full insurance suite adoption a lot. But maybe the part that gets missed is the willingness and the rapidity in which customers are willing to have more wall to wall across policy types. So, Mike, maybe just talk a little bit about how that's evolving, particularly, post what you put up with Liberty Mutual. That would be helpful. Thanks.

Mike Rosenbaum*Chief Executive Officer & Director, Guidewire Software, Inc.*

A

Sure. The way that that discussion or decision happens in our customer base is really all about business priorities. Something is driving the effort to modernize the core system. There's a business objective that is driving the decision to be on a more agile, modern platform. And so especially when we have already established a successful implementation and a successful foothold, it becomes logical that that customer will eventually move the other lines of business that are not yet on Guidewire to Guidewire. But what we try to do is align ourselves to the business objectives that they have for that line of business. Whether or not it's expanding to another, let's say, state very often in some of our US-based insurance companies or whether or not it's modernizing pricing, modernizing packaging, adding new distribution channels, it's those kinds of business priorities that align to the necessity to have a modern platform. And that's what creates the deal cycle that we can go attack or fulfill almost based on the successful track record that we've already established.

And this is kind of why I stress with everybody, it's why you hear me talk about it in the remarks every quarter. It's like the most important thing for us is every single one of our customer projects is successful. And if we can make sure that we're successful that there is an attitude that the next program that they decide to do, logically, they would do it on Guidewire because we're the ones that they can trust and the program is going to succeed. So, hopefully, that gives you a sense of how it's like a business-driven expansion to the other lines of business.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks, Adam. Our next question goes to Parker Lane, Stifel.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey, guys. Thanks for taking the question. Mike, just wanted to double down on generative AI here. How often are you hearing in your conversations with insurers that this is a primary catalyst for their desire to move to the cloud or adopt cloud solutions outright? And do you think it's accelerating the timeline for those that would have been looking maybe five years in the future, are they now starting to sort of compress that timeline in anticipation of their peers adopting some of these generative AI tools?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

I do think it's a driver and I do think it's a factor, and I do think it's helping us especially around the migration discussion. I think it's becoming more and more clear that being on a cloud platform, being on Guidewire Cloud is going to put these companies in a better position. I wouldn't say it's necessarily the primary driver in that a lot – there's a lot of experimentation going on. There's a lot of activity going on in the customer base. And because the core programs, the core projects often take so long, like, it's more like the long-term view is we're going to be better off on Guidewire. But often, there's other activity around generative AI that's happening independent of Guidewire just because there's a necessity for really every company in the world to be learning how to use these tools and seeing what's out there and how they might impact them. So definitely, it's a positive. Definitely, it's driving that conversation and increasing the velocity of the migration and modernization activity. I just wouldn't necessarily – it's like maybe not the primary driver. It's more like a long-term, positive influence.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Makes sense. And, Jeff, one for you, just on the pipeline that you see here over the remaining three quarters of the year, anything to call out about the North American versus international split? I think you mentioned five North

American deals and three international this quarter, expecting a pretty even split, it's skewing in either direction or anything there would be good.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

A

Yeah. I think that the -in general, it's pretty – we're pretty pleased with the breadth of the demand, so seeing healthy demand in Europe. We've made some investments and we're optimistic about the demand and the pipeline in Asia Pac. North America continues to do really well. So nothing specific to highlight right now. And we feel confident that the pipeline is pretty broad-based and global.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks for taking the questions.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Parker. Our next question comes from Rishi Jaluria's team at RBC.

Max Persico

Analyst, RBC Capital Markets LLC

Q

Hey, guys. This is Max on for Rishi. Thanks for taking the question. As we think about the generative AI and the agentic AI features that are being embedded within the PricingCenter and the UnderwritingCenters (sic) [UnderwritingCenter] (39:00), maybe could you just remind us how those features are currently being monetized, and how that could change or evolve over time? And then just a follow-up to that being as usage and adoption of these new features scales, could that potentially have an impact to gross margins over time? And maybe what does that look like?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

So the baseline approach we have for pricing, almost everything at Guidewire, is based on a percentage of direct written premium. And we try very much to build, define and articulate the value proposition of a Guidewire product to an insurance customer as a ratio to their direct written premium. And we feel very, very – we've been very successful establishing that baseline with ClaimCenter, PolicyCenter and BillingCenter. And our expectation is that will also work for PricingCenter, UnderwritingCenter and other products that we sell at Guidewire. I think this is a – it's a key characteristic of our approach in partnership with our customers that the product – the sort of the cost of these products generally scales and often improving economies as the customer grows, but it scales with their growth. And so our incentives are aligned.

And the generative AI, think of generative AI as being key capabilities or features that are embedded within those new centers such that they're not really specifically priced. We'll, obviously, have to create constraints because in some circumstances these things can be expensive to support at scale. But in general, we feel comfortable that the DWP-based pricing models that we have for our other products will apply to these generative AI-based products.

And, certainly, your comment about the potential impact to gross margin, it's something we think about and factor into the structures that we create for not just the new GenAI products but also the core cloud platform itself. We have constraints established that protect us from those kinds of impacts. I would say though on the generative AI

component of this, the improved efficiencies of these models sort of quarter-over-quarter and year-over-year are astounding. And so the circumstances that exist today in terms of how much these things cost to run, I have every expectation that they will improve over time just as they have over the past couple of years. And that's kind of how we're thinking about designing for the use and embedding of these features within our products.

Max Persico*Analyst, RBC Capital Markets LLC*

Q

Very helpful. Thanks for the question.

Mike Rosenbaum*Chief Executive Officer & Director, Guidewire Software, Inc.*

A

Thank you very much, Max.

Alex Hughes*Vice President-Investor Relations, Guidewire Software, Inc.*

A

Thanks, Max. Next question comes from Aaron Kimson of Citizens Bank.

Aaron Kimson*Analyst, Citizens JMP Securities LLC*

Q

Great. Thanks, guys. Jeff, I want to try and dig into the growth algorithm a little bit, if I understand correctly, John commented at the Analyst Day that last fiscal year expansions with existing customers drove more net new revenue than migrations. You have the nice slide on the Analyst Day deck that outlines cloud migrations, modernizations, new products, marketplace and potential M&A as growth drivers. When we think about the 17% to 18% ARR CAGR through FY 2028, can you help us ballpark what each of the organic components could contribute and the glide path for migrations as a percentage of growth over time?

Jeff Cooper*Chief Financial Officer, Guidewire Software, Inc.*

A

So there's a lot in that question, right? Look, I mean, the way I generally think about this and the way we look at this is that there is a variety of different levers that we have at our disposal as we think about achieving the growth algorithm that you just talked about. Obviously, migrations – and it's hard – it's even really hard to decouple migrations from expansions because migrations so often come along with expansions into new areas and then new modules. And so migrations right now are certainly contributing in a very healthy fashion. We have a long runway still to go in terms of migrating our installed base to our cloud products. And we're doing a great job of executing against that.

As we migrate, we've also seen very healthy expansion. Mike commented on this, but just that impulse to commit more rather than less in this environment has been very healthy. So if you're a ClaimCenter on-prem customer, thinking about migrating to the cloud, adopting PolicyCenter at the point of migration is a trend that we've seen a bit more of. There's still a lot of whitespace out there in terms of legacy systems, and the team does a good job just doing the blocking and tackling of winning new customers. And there's a number of new customers that we expect to add this year and they expect that to continue in a healthy pattern.

And then some of these new product areas that will take a little bit of time to incubate, but very excited about the potential that exists there. So I'm not going to get into kind of the exact percentages we're expecting from each of those component areas. But I think the takeaway is that it's pretty broad-based how we think about the algorithm that will drive that growth. And there's a variety of different growth levers that we can pull.

Aaron Kimson

Analyst, Citizens JMP Securities LLC

Q

Yeah. That was an ambitious question. I appreciate that. And then on the new products, I guess, specifically UnderwritingCenter, can you talk a little bit about UnderwritingCenter for personal versus commercial and how you think about that? Are they essentially two separate submodules from a development perspective? And does it make sense to invest in more heavily in one than the other first?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. Same underlying framework, different use cases. And I think you almost could consider personal – each line of business in commercial will have slightly different requirements and a slightly different approach. Personal versus commercial is one way to segment it, but there's going to be lots of nuance to how this actually gets built and rolled out, and which lines of business it'll be most useful for at the beginning versus over time. We're certainly approaching it like we do everything at Guidewire from a platform-first perspective, and so trying to share as much componentry across all of those use cases as possible. And then with Advanced Product Designer, we can model the product for that specific line of business, personal or commercial or whichever commercial line of business we're talking about.

And then with respect to the tweaking and training of the prompts and the approach we take to the models and the types of documents we have to ingest in order to feed into the business workflows, each of those will be tweaked by line of business. Our choice of where to invest in the sequencing of the investment is a little bit to do with what things we need to focus on in order to like stress test the whole system but also which customers we've had the opportunity to work with in order to really test this out in conjunction with a real use case. And so that's how we're currently thinking about it. But the objective overall is for there to be one underwriting platform that's going to work across lines of business and the complex commercial lines is whether – as well as all the commercial lines business. It's a super question. Thank you.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Aaron. Well, that's our last question. So I'll turn it over to you, Mike. Any final comment?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

No. Just thanks, everybody, for joining. I'll just reiterate, we couldn't be happier with the start to the fiscal year and the momentum that we're seeing with cloud, very significant amount of runway left in the core business for the company and positive visibility into pipeline. And we're excited to increase our focus quarter-over-quarter on these new products and excited to share more about that progress with you in future quarters and conversations throughout the rest of the year. So thanks again, everybody, for joining.

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