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Guidewire Software, Inc. (GWRE)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Guidewire Third Quarter Fiscal 2025 Financial Results Conference Call. As a reminder, this call's 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 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 as well as John Mullen, President and Chief Revenue Officer, who will be available for the Q&A portion of today's call.

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 and are based on management's current

expectation 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 annual 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, we're conducting this earnings call via Zoom audio rather than IntelliBridge. This means we'll manage the Q&A portion of today's call internally with the help of Grace who you just heard from and me managing Q&A. Please be patient if we encounter a short pause in any of the handoffs during Q&A.

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

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Thanks, Alex. Good afternoon, everyone, and thanks for joining us today. Before we get started, I want to take a moment to acknowledge and congratulate the entire Guidewire team for the hard work and exceptional execution that went into delivering another amazing quarter. Our results in Q3 and year-to-date clearly demonstrate the accelerating momentum we're seeing as more insurers recognize how critical it is to have a flexible and agile core system. Guidewire Cloud Platform is now well-established and proven, and we're in an excellent position to continue driving growth, efficiencies, innovation, and better insurance outcomes for our customers.

Let me start by sharing some highlights from the quarter. First, I'll touch on sales where we had a record Q3. The sales activity we delivered was actually the third best quarter in our history. We closed 17 cloud deals, 14 for at least 1 of our InsuranceSuite applications, and 3 for InsuranceNow. We saw particular strength at the high end of the market, closing seven core system deals with tier 1 insurers and three with tier 2 insurers, again, proving the maturity and robustness of our platform and validating our long-standing strategy to focus on the unique demands of this segment of the market.

Our sales success resulted in ARR of \$960 million, allowing us to raise our full year outlook. We are solidly on track to exceed \$1 billion in ARR this year, which was a collective ambition we established a number of years ago. We will be thrilled to surpass this milestone, but more excited about the overall momentum in the business. Our growth this quarter was broad-based and multi-dimensional, with nine cloud migrations, five net new deals and three expansions.

I'm also excited about the traction we've established with InsuranceNow. This quarter, we closed three net new InsuranceNow wins, including two of the largest ever on this product. Our success with InsuranceNow highlights our ability to effectively serve insurers across all segments and tiers. Additionally, our international momentum continues to build with the significant cloud expansion in Canada and cloud wins in APAC and EMEA.

With respect to the deals we closed in the quarter, I'd like to point out a few encouraging themes. We continue to see insurers looking to replace rigid systems with more agile platforms that allow them to deploy new products and lines of business faster. Advanced Product Designer along with pre-integrated solutions from our marketplace

were key to winning multiple deals this quarter, including several large insurers in the United States with a great new win in Latin America.

Our consistent, positive referenceability continues to spur both expansion activity and new cloud wins. This included a tier 1 personal lines insurer in the United States who after successfully deploying ClaimCenter on cloud is now expanding to InsuranceSuite. We also had great new expansion wins in Europe and I was pleased to see a new cloud win in Japan where the success of another local cloud project played a key role. And finally, the work we did previously to establish a large framework deal with Zurich Group is now paying off where we executed two more deals, one with Zurich Switzerland who adopted PolicyCenter and BillingCenter as well as a multibillion-dollar subsidiary who adopted the full InsuranceSuite.

We also continue to make progress with our data and analytics offerings. In Q3, we secured our first Guidewire industry intelligence sale. This is a new pre-built, market-validated predictive model embedded directly into our ClaimCenter workflow. This is a model trained and validated based on contributed anonymized data and only possible based on our cloud deployments. This is a first important step towards what we believe will ultimately not just be a great source of new revenue, but more so an added and unique benefit associated with running on our cloud platform.

A second highlight from the quarter is the continued momentum across our customer success, CloudOps, and professional services orgs, which is helping to drive excellent platform referenceability. We had another 10 customers go live on Guidewire Cloud Platform in the quarter, including Santalucía, Spain's leading family protection insurer; and Cincinnati Insurance Company, the flagship subsidiary of Cincinnati Financial.

The last few months have also been busy for us in the marketing and international event front. In March, we kicked off the first of three regional insurance forums in Paris, welcoming more than 200 attendees from customers and prospects across 16 countries. This gathering, our largest ever in Europe, focused on discussing the future of insurance and exploring ways the industry can continue to innovate and improve. Several customers shared their experiences, including Lee Dainty, Commercial Claims Director at RSA Insurance, who described how RSA's move to Guidewire Cloud has streamlined claims processing, improved transparency and positioned RSA ahead of its peers in the UK.

We also heard from [indiscernible] (00:25:36), a multi-line insurer headquartered in Switzerland who spoke about how Guidewire Cloud has driven better service and increased efficiency in its K2 program were over 99% straight-through processing. And Beesafe, a Polish micro insurance specialist, shared how they utilized Advanced Product Designer to rapidly launch a new product in four days, fulfilling a critical commitment to their distribution partner. The forum was an opportunity for us to reaffirm our commitment to the European market, our commitment to partnering with European marketplace providers to drive local innovation, and our commitment to maintaining a rigorous – to maintaining rigorous compliance with evolving European regulations like Solvency II, GDPR, and DORA.

In May, we hosted two more regional insurance forums, one in Tokyo and one in Sydney, welcoming more than 150 and 170 attendees, respectively, making them also our largest ever events in these regions. At the Tokyo forum, we announced a major step forward in our commitment to the Japanese market, an investment of approximately \$60 million over the next five years that extends and enhances our existing local operations, talent, innovation, and partnerships. We were also excited to hear from our first cloud customer in Japan who shared how they are using Guidewire Cloud to drive innovation and modernize their operations.

At our forum in Sydney, Neil Morgan, COO of IAG, shared a powerful story about the role of technology in crisis. After a series of severe weather events in Auckland, IAG faced a surge of 48,000 claims, including 4,000 written-off vehicles. One team member using Guidewire ClaimCenter integrated with an intelligent automation tool to build a bot that cut claim processing time from 20 minutes to just 90 seconds, a change that freed up teams to focus on supporting customers when it mattered most. Together, these three events demonstrated how we're delivering on our global strategy through deep local partnerships, innovation, and track record of execution excellence.

But for me, the real highlight of the past few months was the developer summit we held in Bangalore, India. We put on our first developer event last year in Bangalore and were surprised at the positive reception and interest. This year, we were blown away with over 1,500 developers attending from nearly 60 partners and customers. The size of this event is something I think worth noting. We talk about the scale of our partner community and the scale of our certified ecosystem of developers and Guidewire professionals, but to see 1,500 people all come together in one room to learn and enhance their careers and ability to support Guidewire programs more effectively was inspiring.

Every attendee was encouraged to bring a laptop and we had the opportunity to share in a very hands-on keyboard sort of way the new platform advancements and features with the technical practitioners really driving the innovation and execution in our community. We shared new capabilities around upgrade-safe development for InsuranceSuite extensions, new migration technology to support upgrades to our Advanced Product Designer, new components and capabilities in our Jutro front-end web experience platform, new AI cogen capabilities supporting Jutro, integration applications, and Gosu extensions. We shared new approaches to full cycle business intelligence with our cloud data platform, Data Studio, and Explore dashboard and reporting suite as well as the ability to use all of this to easily generate, test, and deploy predictive models on our platform.

Finally, and maybe most interesting in the long-term, we showed developers where we're headed in terms of supporting virtual cloud-based instances of Guidewire they can use to develop against our complete cloud platform or even host custom applications and workloads all on the Guidewire Cloud Platform. I have been very focused lately on the potential positive impacts generative AI will have on Guidewire and the insurance industry and I think generally this event encapsulated a lot of the potential for increased program velocity that might provide a boost to Guidewire, but more so the innovation agenda in the insurance industry.

And in the midst of all of this, we completed our acquisition of Quantee, a cutting-edge provider of pricing and rating technology based in Poland. Since closing the acquisition, we've been hard at work planning the integration of Quantee into our broader technology portfolio and expect to share more specific plans about this area of our product strategy in future calls.

In summary, Q3 was a historic quarter for Guidewire and highlights strong market momentum across every tier and every region of the P&C industry. Insurers all over the world are increasingly recognizing the maturity, flexibility, and proven capabilities of Guidewire Cloud Platform. I could not be more pleased with our strategic position heading into our Q4 as I think we are well-placed to continue our cloud transformation and mission to support efforts to modernize and power innovation in our industry.

So, with that, I'll turn it over to Jeff to discuss the financials in more detail.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

Thanks, Mike. We had an incredible Q3 and we look forward to building on this positive momentum. Strong demand for our cloud offering helped ARR finish at \$960 million, ahead of expectations. Additionally, as Mike noted, we had a strong sales quarter both in terms of deal counts and deal sizes. It is clear as our market – our cloud market leadership position is now established that insurers are more willing to make large commitments. This is a strong vote of confidence and we aspire to exceed customer expectations and drive successful outcomes with this critical work.

Total revenue was \$294 million, up 22% year-over-year and above the high end of our outlook. Subscription and support revenue finished Q3 at \$182 million, reflecting 32% year-over-year growth and our continued InsuranceSuite cloud momentum. Services revenue finished at \$54 million and benefited from strong services bookings that translated into higher utilization rates.

Turning to profitability for the third quarter, which we will discuss on a non-GAAP basis, gross profit was \$192 million, representing 27% year-over-year growth. Overall gross margin was 65%. Subscription and support gross margin was 71% compared to 66% a year ago. In the quarter, we benefited from approximately \$4 million in credits from our cloud service provider, which positively impacted our gross margin or generally and I know I've been saying this for a while, I am thrilled with our progression on the gross margin line and the benefits of the platform investments that are now being realized to a healthy degree.

Services gross margin was 13% compared to 10% a year ago. We are very pleased with our profitability progression in our services org. Most importantly, the services org in combination with our partners and our customers, continues to deliver successful outcomes in the form of go-lives and cloud updates. This is foundational to our long-term success.

We finished Q3 with operating profit of \$46 million. This finished ahead of our expectations primarily due to higher revenue and higher gross profit than expectations. Last quarter, we mentioned that we expected some hiring acceleration in the back half of the year and we have seen this materialize. This growth includes our new employees from the acquisition of Quantee. We are excited about adding the team at Quantee to accelerate our ambition in the pricing domain. This acquisition added an immaterial amount of ARR in the quarter and 23 employees with the majority of the new employees located in Poland. As you may know, Poland was already an important development center for us and we now have over 140 employees in Poland. We're excited about the expertise that we are adding and the fit with our existing product development motion. Our respective teams are already working well together.

We ended the quarter with over \$1.2 billion in cash, cash equivalents and investments. Operating cash flow ended the quarter at \$32 million, which was ahead of our expectations due to strong collections in the quarter. We settled at maturity our 2025 converts, which resulted in a \$180 million* cash outlay, including accrued interest and we realized net share accretion of approximately 26,000 shares as the shares issued to bondholders upon maturity were less than the shares we received from the call spread we purchased in 2018 in conjunction with issuing our 2025 converts.

Now, let me go through our updated outlook for fiscal year 2025. Starting with the top line, given our strong performance year-to-date, we are raising our ARR outlook to \$1.012 billion to \$1.022 billion, which reflects growth of 17% to 18% year-over-year. In addition to higher sales momentum, we are also seeing record low ARR attrition percentages and record high ARR ramping activity. 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 \$8 million positive adjustment.

We will certainly quantify this at year-end. We'll continue to monitor FX rates throughout the remainder of the fiscal year.

For total revenue in fiscal 2025, we now expect between \$1.178 billion and \$1.186 billion. We expect approximately \$660 million in subscription revenue and \$724 million in subscription and support revenue. Given higher than expected services bookings year-to-date, we now expect services revenue to be approximately \$215 million.

Turning to margins and profitability, which we'll discuss on a non-GAAP basis, we now expect subscription and support gross margin to be between 69% and 70% for the year. In Q4, we are expecting 68% subscription and support gross margins as we are seeing the impacts of recent go-live events and we do not expect to realize any material credits from our cloud service provider.

In general, we remain a bit ahead of schedule as we work towards our longer term margin targets and continue to feel confident in our gross margin progression. Our FY 2025 expectations for services margin and total gross margins remain unchanged at 12% and 65%, respectively. We are lifting our outlook for operating income primarily as a result of our revenue outlook. We expect GAAP operating income of between \$20 million and \$28 million and non-GAAP operating income of between \$187 million and \$195 million for the fiscal year. We expect stock-based compensation to be approximately \$162 million, representing 11% year-over-year growth. This is a bit higher than our prior forecast due to the acquisition of Quantee and lower employee attrition than our model assume.

We are increasing our outlook for cash flow from operations for the year to be between \$255 million and \$275 million due to stronger than expected revenue and collections combined with strong expense discipline. In summary, it was a fantastic third quarter and we are excited for Q4.

Alex, you can now open the call for questions.

QUESTION AND ANSWER SECTION

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Okay. Great. Thanks, Jeff. Okay, everyone, we'll go to questions now. For those of you in the panel, if you want to ask a question, just click the raise your hand in the prompt in Zoom and with that, our first question is going to come from Alexei Gogolev, JPMorgan. Go ahead, Alexei.

Alexei Mihaylovich Gogolev

Analyst, JPMorgan Securities LLC

Q

Thank you, Alex and Jeff. My congratulations for the amazing results. Jeff, it has now become almost like a tradition for you to provide your view on fully ramped ARR outlook during 3Q earnings as I think you've done it two years in a row. Would you be able to share your thoughts this year? Would you expect to fully ramp ARR?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah, so thanks, Alexei. Yeah, momentum is really strong and we feel great about our position going into Q4. As you know, Q4 is always critical as we close out the year and calculate fully ramped ARR results and I think most folks understand kind of how important Q4 is.

That said, I feel confident that we can see fully ramped ARR grow at levels consistent with what we've seen more recently. As a reminder, we grew fully ramped ARR 17% and 19% on a constant currency basis in fiscal 2023 and fiscal 2024, respectively. So, kind of maintaining that upper teens level of fully ramped ARR growth feels like we're heading in that direction. But I just want to make sure I add that Q4 is always our largest sales quarter. Fully ramped ARR in particular depends on larger commitments, multi-year commitments, and those large deals can be very binary in nature. And so we have a range of outcomes that can be quite wide as we model out different scenarios. But kind of getting into that, maintaining upper teens fully ramped ARR growth would be a tremendous outcome for us to do that three years in a row and that's the direction we're working towards.

Alexei Mihaylovich Gogolev

Analyst, JPMorgan Securities LLC

Q

Thank you very much, Jeff. And Mike, could I ask you a question about the Japanese market? It seems that you're progressing really well. What is the secret sauce? What is helping you to win cloud deals in that market and how are those customers viewing US software?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, thanks for the question. I appreciate it because the trip to Japan this quarter and the event that I described, it was a real highlight for us. It was also exciting for us to be able to announce this financial commitment to the region. I think that's probably the key word. I think we see a tremendous opportunity in the Japanese market, both directly for direct written premium and serving the customers as they operate primarily in that market. But you also have some very concentrated, big multinational players that we have relationships with all over the world and we want to make sure that we are serving those customers effectively in every geography in which they operate insurance businesses.

I think the key word is commitment. We're committed to this market for the long-haul. I can't say whatever it takes, but that's the attitude, is we're going to show up. We're going to show up with the best possible platform and we're going to make the investments necessary to ensure that that platform is fit for purpose in what those companies need for the next 10, 20, 30 years of their existence in the Japanese market. I think we're uniquely positioned to do that. I don't think that there's any other P&C platform, core system platform that is, that is honestly capable of serving the market the way Guidewire is. It takes a very significant investment for us to show up year after year after year and deliver this for them, but we're going to do it. And I think that's what was behind that press release and the commitment that we made.

It's also about delivering successfully, right? It's about being there with those partners as they do these projects and ensuring, especially now with cloud that we have the follow through and that it's successful. The Japanese market doesn't move as fast as other markets, but when they move, they move with determination and I intend to ensure that Guidewire is positioned to be there when they're ready. And like I said, I want to be the P&C platform for Japan for the next 20, 30 years.

Alexei Mihaylovich Gogolev

Analyst, JPMorgan Securities LLC

Thank you for [indiscernible] (00:42:26).

Q

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Yeah, thank you.

A

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Thanks, Alexei. So, our next question comes from Adam Hotchkiss at Goldman Sachs.

A

Adam Hotchkiss

Analyst, Goldman Sachs & Co. LLC

Great. Thanks so much for taking the questions, guys. I guess just to start, I know when we headed – in the past, talked about fiscal 2025 ARR guidance, it felt like you had messaged that the ARR cadence was substantially weighted towards Q4 given your visibility on the backlog and when that was coming live into total ARR. Obviously, with the Q3 outperformance, would be just good to understand whether there was any pull forward from Q4 relative to your expectations or if it was just a stronger quarter given more demand at the top of the funnel. Would appreciate any color there. Thank you.

Q

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Yeah. I'll give you my perspective quickly and then Jeff can chime in if he wants. It was obviously a great Q3 and – but we had momentum across every tier and every component of the business. Right now, we feel good about the potential in Q4 and that relates to being able to pass through a portion of the outperform in Q3 into the increased guidance for Q4. And so I just would say like we feel we've got a lot of work to do. We need to execute and execute these transactions and it's a very, very big quarter for us, but generally we feel great about the momentum.

A

So, yeah, let me – actually John's here. We pointed that out in the – at beginning of the call he's here and he'll give you a perspective on the Q4 outlook.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

Yeah, I'll just add that Mike mentioned that the quarter was broad-based and multi-dimensional. I think it's really about execution. I'll comment that the team as the team – as the quarter came to a close, the execution – I would have expected a couple of the deals to find their way into Q4, quite frankly. But David Laker and his team, sales team around the globe and the solution advisory team just did a really good job of executing all the way up to the last minute of the quarter and making sure that what was available within the quarter stayed within the quarter. So, I didn't see or feel any pull forward nor any singular outsized event.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. And just to pile on there a little bit, from how we modeled it, Adam, as John hit it on the head, it's my view and kind of how I was expecting the quarter to play out, there were some of these deals that I expected to slide into Q4, and we're just seeing very high close rates and very strong execution. So, we saw a bit less of that. So, kind of not necessarily pull forwards, but kind of those deals didn't kind of naturally pass into Q4.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

All right. Thanks, Adam. We're now going to go to Dylan Becker of William Blair.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Hey, gentlemen. Appreciate the question and congrats on the terrific results here. Maybe Mike or John for you, I know Jeff called out kind of the larger contracts and we've seen kind of the validation of the platform starting to play out here. I wonder to what extent are your conversations starting to have that kind of more holistic consolidation type of story around it where you can be kind of that singular end-to-end vendor to help solve a lot of that kind of disparate legacy complexity that we've become so accustomed to knowing here.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

Great. Dylan, thanks for the question. What I would – I would hearken back to the conversation on proof points. With many of these carriers, with that first cloud proof point and the cloud updates that follow fast behind that, it really opens up this conversation around what's the next line of business, what's the next geography, what's the next segment of business to go after. And in the quarter, we saw what amounted to, I think, pretty critical strategic take-outs of what would have been more modern competitors and it plays to that question you're asking, which is earning the right to broaden the reach of the conversation, to get warm introductions into other lines of business in other segments, in other geographies is proving out. In a few cases, it starts to become very much a conversation about at some point in the future what does an aligned destination look like where Guidewire is really part of the strategic fabric of that carrier's planning going forward.

And more and more, we're having those conversations and more and more, we're putting the teams in place in the geographies to meet those carriers where they are to have that conversation. So, it's a good point. We're seeing some momentum there. It's still a long, long way to go. A lot of opportunity and a lot of hard work ahead.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Sure. No, totally fair. Appreciate the color there, John. Maybe for you, Mike. There's been a lot of talk around kind of the different insurance segments as well, too, right, with the hardening rate environment and the inflationary pressures that are being put on consumers and risk exposure. How do you think about the opportunity for a system like Guidewire to help kind of narrow what seems to be maybe a widening coverage gap to help solve that problem and maybe how that plays into another lever of potential kind of premium growth from an industry perspective?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. It's a great question. I think what the word I like to use with respect to this question is agility. The more agility that we can provide insurance companies and the developers, actuaries, IT teams that are thinking about how do they structure their products, how do they take their products to market, how are they pricing their products, and what kinds of rate structures are they applying to these products, being able to do that faster is going to enable the insurance industry to learn more about how to best close that coverage gap, how to best take this like incredible financial instrument to market as effectively as possible.

We are seeing pretty significant shifts towards access and specialty away from admitted lines. And this is also kind of puts pressure on the technology structures within these insurance companies. And so when we can provide a platform that basically takes that IT risk, that technology execution risk out of the equation, it allows those companies to just execute like insurance companies. And it allows us to play a role, honestly, that makes a lot of people pretty excited here at Guidewire around bringing insurance to every business, homeowner, state, locale in the world that needs it and that's pretty exciting.

So, I think that behind what we call like the referenceability and the success stories of all these cloud implementations, there's a degree of agility that we're delivering that is genuinely new and unique in the industry, and that's going to continue to help close the coverage gap that you described. So, that's a big part of it

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

Thanks for the question.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Dylan. Our next question's going to come from Ken Wong of Oppenheimer & Company.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Great. A question for John or Mike. I think earlier, it was mentioned record low attrition, record high ramping activity. How much of that do you think is a dynamic of your core market just really leaning into modernizing versus perhaps internal initiatives and execution that you guys have been laying the groundwork on?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Let me give you a quick answer. [ph] I don't know that (00:50:05) John comments on it. I would say they're kind of separate. The ramp activity is associated with the success of prior years and just the follow through the agreements kind of flowing into the business model. The most important thing at Guidewire is customer success. It's ensuring that no matter what we're doing, everything that we can possibly do to ensure that these programs

are successful. This is an incredibly durable industry with an incredibly durable use case and if we can deliver software that works on a platform that works, we're going to end up with a durable revenue stream supporting that value for customer. That's the most important thing in our company and it will – it has been part of the company since day one. It will be part of the company forever, and that's my take on what's driving that financial measure.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

We oftentimes talk about the maturing cloud platform but sometimes we don't talk enough about the maturing cloud operations and the professionals and the teams that work every day to be as responsive as possible around the world to work with customers, solve issues, and unlock new opportunities. And our ability to work with – run the core systems of these companies and that team's development in CloudOps, customer success and our technical advisory team has really come a long way. And working closer and closer with customers to remove any daylight between interpretation of issues and opportunities to solve problems. And that's really helped a ton in maintaining alignment on the attrition rate.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Got it. Fantastic. And then Jeff, just in terms of the pace of investments, talked up how second half will continue the investment levels. How are you thinking about going forward? Are you guys seeing the ROI where it might make sense to extend the investment cycle or is this more of a kind of a one year catch up after years of putting investments in the cloud platform?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. I mean, I think that this year has played out pretty consistently with how we planned, although the hiring was a little bit more back end-weighted than we originally expected. The addition of the Quantee team is exciting for us as the pricing ambition has been something we've been thinking about for a long time.

We certainly see a very healthy backdrop for investment as we look at our market. The way we've thought about this and approached this is, is that we already have the largest investments in the industry. We have the biggest engineering team. We have the biggest and most professional sales team, and we're appropriately resourced to address the market opportunity in front of us and still deliver new products and capabilities to the market.

We still foundationally believe that. We're always assessing our plans and this quarter is when we do a kind of a deeper dive into how we think about some of the long-range planning. And we'll assess kind of how we think about our investment posture. But as of now, the message is, is as you think through how we've talked about our longer term goals historically, we feel very confident that we can operate and kind of meet the moment while kind of maintaining those existing investment profiles that we talked about previously.

Ken Wong

Analyst, Oppenheimer & Co., Inc.

Q

Got it. I appreciate the color there, Jeff.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

All right. Thanks, Ken. And just a reminder for those in the panel, if you do want to ask a question, be sure to raise your hand. Our next question comes from Michael Turrin at Wells Fargo.

David Unger

Analyst, Wells Fargo Securities LLC

Q

Thanks. Hi. It's David Unger on for Michael Turrin tonight. You guys touched on the GenAI possibilities in prepared remarks and the benefits that could trickle down to Guidewire. Is there anything specific worth highlighting here that has resonated most with customers as of today? Thanks.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

[ph] As opposed (00:53:51) to call out particular features, I would say we're taking a very broad – call it a broad-based, broad spectrum approach to facilitating generative AI use cases across the product suite, across ClaimCenter, across PolicyCenter. There's numerous opportunities in the claims workflow for applying – and building and applying these features to improve process efficiency for insurance companies.

There's also like a very clear use case around what's called submission intake and the triage of inbound interest for underwriting processes and where generative AI can play a role in, call it, summarizing and assessing an inbound request for a quote relative to a carrier's ability to write that risk. But then probably another area that's worth highlighting that's just obviously very clear is developer productivity and using LLMs to facilitate the creation of maybe not just specifically code but test cases and the other kind of components of what goes into a development project on a platform like Guidewire. Across all of those three things, we're seeing a lot of positive feedback from our customer base and our developers about what they'd like to see from us and where these things could be put to use in order to drive efficiencies into the programs and also the operations of our customers. So, there's a lot of areas, but those are the three things that I'd say are probably most interesting right now.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Okay. Thank you. Our next question goes to Aaron Kimson.

Aaron Kimson

Analyst, Citizens JMP Securities LLC

Q

Thanks, guys. Can you help us think about the pricing methodology and possible uplift for Guidewire industry intelligence, whether that first sale is a beta version or it's something available to all customers? And if that's something you anticipate landing with smaller insurers and proving out or something where you can land with tier 1s and tier 2s off the bat.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, so great question. And I think first of all, the applicability of it relates to what the model predicts and whether or not it lines up to the line of business and the specifics of what that customer writes. We took a pretty broad approach to this first one and to try to touch as many of the – as much of the customer base as we could. But we have a long kind of pipeline for different predictive models that we think might work and are working through the process of validating those and building those out. And so over time, there'll be more models that might be more applicable to different use cases, different lines of business across the customer base. For sure this is something that – there's this sort of like ability to target smaller insurance companies with a larger collective data asset than they have on their own. So, if you're a huge insurance company, you've got a lot of data. You've got enough data to be able to create one of these predictive models on your own, but if you're a smaller insurance company and you don't have that scope of data, you're kind of stuck. And this is where Guidewire and this intel

model can really play a positive role and give them a sort of head start, zero-day capability that otherwise would take years to develop.

So, that helps in terms of smaller carriers. It also helps for bigger carriers who are jumping into new lines of business or new territories where they don't have that data track record to draw from and create the predictive models they need to be as efficient as possible.

And so hopefully, that gives you a sense of like where we are and how this is going to roll out and the applicability of it. Over time, though, I'd be – I'm very hopeful that this is something that we've got enough models and enough use cases where the majority of cloud customers are finding a way to participate in this product line with us.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

I'll just add one thing there, which is the field team and the way we [indiscernible] (00:58:11) with customers, there's a lot of optimism about where Industry Intel can go for us because where we've got real foundational proof points on operations and agility and running core systems, getting closer to the pricing and the indemnity management of our customers puts us more in a C-suite conversation. And that's really an area where we can push the envelope a little bit, talk more about insurance results rather than operational outcomes, and that's opened up a whole new channel of conversation for us and access to maybe buyers we haven't traditionally sold to as often.

Aaron Kimson

Analyst, Citizens JMP Securities LLC

Q

That's really helpful. And then I want to follow-up on Alexei's question on the Japanese market. Can you talk a little bit about the regulatory changes in the Japanese market related to cross-holding that are expected to lead to P&C insurers having more capital on hand and what the potential benefits to Guidewire are whether through an increased willingness to make transformational technological investments with that additional capital or for you to win market share through M&A, if that's how they choose to utilize the additional capital? Thank you.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

Yeah, thanks for the question. I think as Mike mentioned, Japan, we're going to be in that market, relevant, investing with the talent and the capabilities and the solutions to be relevant in that market for the long-haul. Really pleased with how that team has developed. I'm not in a position to really get too deep into the regulatory environment there. I'd have to pull in the Japanese team to answer that question specifically, but I do believe that our ability to answer with our investments in policy core processing, our ability to answer both the core processing problem there and the capital allocation opportunity there is very real. It is the acquisitions that come from Japan will continue to be a big part of the global insurance market and the dynamics of the Japanese market will, to your point, influence and increase the rate of investment outside of Japan. And we think we're in a really good position given multi-currency, multi-location, and multi-line of business capabilities to be that partner for them going forward.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Thanks, Aaron. Our next question's going to come from Alex Sklar at RBC (sic) [Raymond James] (01:00:24).

Alexander Sklar

Analyst, Raymond James & Associates, Inc.

Q

Thank you. Jeff, [indiscernible] (01:00:31) for you. Just looking at that mix of ARR growth, you called out the strong ramp activity. Can you talk about how this year's bookings have looked from a ramp shape standpoint relative to the last couple years? How much of that third quarter ARR growth actually came from ramps versus that record activity? And then I had a follow-up. Thanks.

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah. So, in terms of the overall ramp activity, it's always very hard to comment on the year until we get to Q4 because Q4 will drive kind of how we think about that cohort. In general, if you look at the activity in Q3, the one thing of note is that we are seeing some longer durated activity. So, we did see a couple deals that were longer than five years and in some cases, we have ramps that extend even beyond year five. Our definition of fully ramped ARR, it caps at year five. So, we don't consider things that occur after year five until that moves into the next five-year window. But in general, ramps are kind of similar to what we'd expect, bigger commitments, longer durated deals. But the overall slope of the ramps, there's nothing to highlight and Q4 will have a large impact on it.

With respect to ARR growth and where it's coming from, it was pretty balanced. We are seeing very healthy ARR coming off of the backlog in Q4. We talked a bit about that last quarter. So, that dynamic is still very real for us and then in Q3 saw some very healthy contribution from new deal activity in the quarter that, as Mike noted, it was a record Q3 for us.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Okay. Great. Thank you. All right. Next question comes from Matthew Kikkert at Stifel.

Matthew Kikkert

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you very much for – yeah, thank you very much for taking my questions and congratulations on the quarter. I'm wondering if you could talk a little bit about the Quantee acquisition. What's the incremental functionality that you see them bringing to the table and is it something that should appeal to all of your customers or just a subset of some?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah. Thanks for the – thanks very much for the question. As I said in the prepared remarks, I think you should expect us to be – to provide more detail over time about where this will fit into the company's product strategy. But I'll give you a quick answer.

They provide a pricing and rating technology that we think is going to be ultimately applicable to every customer. Exactly how that rolls out across all the lines of business at Guidewire and how it fits into the existing products, we – like I said, that's work we're still doing right now. But this is a great team of people who are really excited about supporting a use case that's a little bit beyond what we traditionally have focused on with Guidewire.

Think of like what we've done traditionally as taking the output, the pricing strategy from an actuary and running it efficiently in production to provide real-time rates when you need to rate a new quote. This pushes us into the design of the pricing strategy and then seamlessly connects the output of what those actuarial teams want to run

in production to the actual production rating system. That provides a huge amount of flexibility and agility to those teams and to those insurance companies that want to make more real-time changes.

Now, the applicability of that specifically depends kind of on what region you're operating in and the different lines of business that you're supporting. But the general technology in terms of like providing a workbench for actuaries to build prices with, bringing lots of different data sources and run scenarios and come up with rate routines and rate strategies that make sense for the risk that they want to underwrite, that's what we're really excited about. That's a key component to us delivering on this like concept that we're going to bring more agility to an insurance company, enable them to change the rates, change the rules, change their prices, change their product definitions as fast as the businesses want them to be changed and kind of take away the concept that there's a bottleneck on the technology side.

We think we can deliver a platform, a seamless platform using Quantee and the rest of the Guidewire Cloud Platform to deliver that agility to the market. So, hopefully that gives you a little bit of a sense and like I said, there's going to be a lot more to come from us over the next few months and quarters on this subject.

Matthew Kikkert

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, terrific. And then secondly, you continued to show nice subscription gross margin expansion over 70% once again, but still long ways from the 80% long-term target. What incremental steps do you think could be made to add another 1,000 basis points to that margin over time?

Jeff Cooper

Chief Financial Officer, Guidewire Software, Inc.

A

Yeah, sure. We're continuing to invest in our platform. The engineering team is continuing to build more and more automation. And then it's just some of this is just a function of us adding scale, customer getting to fully ramped outcomes from an ARR perspective and the model just maturing. So, as we look through – I don't think there's any heroic steps that needs to take place in order for us to get there. It's just the continued blocking and tackling and kind of adding more and more scale to the platform that we've already built.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks, Matthew. So, our last question's going to come from Tyler Radke at Citi.

Tyler Radke

Analyst, Citigroup Global Markets, Inc.

Q

Yeah, thanks for taking the question. You hit on your developer day that you hosted, sounds like it was a good success earlier this year and I'm just curious how you're seeing your customers leverage AI, agentic AI, specifically around some of the code completion for modernizing these legacy systems. Obviously, a lot of the big tier 1s have COBOL and mainframe systems with a ton of legacy codes. But like what type of improvements in that modernization process have you seen thus far? And I guess what are you doing from a product perspective to sort of enable some of those features in your own solution?

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, thanks very much for the question. So, yeah, there's a lot of, I'd say, interesting, I don't know, theoretical assessment of whether or not generative AI can tackle these mainframe conversions and I think – we think of

these things. I think of these things. Maybe you should think of these things as potentials and certainly there's positive signal that this might occur.

I would say practically, what's really happening right now is things that are more surface level. So, think like building the scaffolding for integration between Guidewire and another public or private API, something that's more discreet and this is something like just works. Building the front-end code associated with portals or our Jutro development framework where you're taking Guidewire and exposing it to a public website, this is creating test cases associated with code that you're writing on our platform. And these kinds of use cases are driving a tremendous – it drives a tremendous amount of cost in the ecosystem and in the implementation programs. And it's really directly pointing towards positive outcomes in terms of actually deploying these techniques against these types of use cases.

So, certainly like the COBOL mainframe conversion, those kinds of things are, like I said, there's signal pointing towards that potential. But we're also seeing a lot of other use cases that do represent very significant components of a Guidewire implementation that we're seeing a lot of positive results from. And I would say like that's as much of where the excitement is right now as anything else.

The other thing that you just have to generally be careful of with respect to these modernization programs is very often what we are doing with Guidewire is we are helping a company reinvent their business process to be more modern and enable them to break the mold of what they're tied to with their COBOL-based mainframe. And so you don't necessarily want a magic button that instantiates the broken business process into a modern system. You do actually want to take the time to think about what's the new way that we're going to architect our products, what's the new way that we're going to architect our claims processes, what's the new way we're going to engage with our customers with new digital channels. And to do that, you need a modern platform, but you need to take the time to rethink your business process and modernize your company holistically. And so, yeah, that magic press a button and everything converts is maybe tantalizing, but it isn't necessary going to deliver the agile modern insurance company that everybody really wants.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

A

Great. Thanks, Tyler. I'm actually seeing one more question from Rishi Jaluria at RBC.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Hey, Rishi.

Rishi Jaluria

Analyst, RBC Capital Markets LLC

Q

Wonderful. Thanks so much for squeezing me in. Really great to see continued momentum in the business, especially in a tough macro environment. Maybe I want to start, Mike, you made some comments on some of the success you're seeing in InsuranceNow. I recall when you kind of started as CEO, that was one of your priorities of kind of rebuilding the product and modernizing it. Maybe can you talk about what's driving some of the success that you're seeing in InsuranceNow, whether that's product specifically, go-to-market execution, just the industry itself being ready for that?

And maybe just alongside that, as we think about kind of the potential handoff, how do you balance the strategy of wanting to work with these customers? But at a certain point, should they grow up to be big enough to maybe be

classified as tier 1, tier 2, or even tier 3 kind of at the borderline, what that handoff to IS cloud looks like? Thanks so much.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Yeah, thanks for the question. First, just touching on the last part of your question, we actually have a number of customers that are running both InsuranceNow and InsuranceSuite for different lines of business, different use cases where it's more suited, let's say, for a smaller line of business that wants less customization, less configuration capabilities. Just the InsuranceNow platform fits. So, we see all kinds of use cases in the customer base.

I think that we just – the team, our team and it has executed extremely well and then with respect to the InsuranceNow product. We've done a great job getting the product where it needs to be. We've done a great job collaborating with our teams on the platform side to be able to run InsuranceNow on the Guidewire Cloud Platform and drive efficiencies there. That gives us some confidence that we can take that product to market aggressively in the lower tiers of the US insurance market.

Strategically, that gives us a lot – gives me a lot of confidence that we're basically not – we don't have any blind spots. We're paying attention to every single segment of the market and every single potential competitor and making sure we're competitive and winning business and not leaving ourselves exposed to some sort of smaller insurance-focused startup product that's ultimately could be a threat to Guidewire. I feel great about all that. We've executed really well. The product works. The customers are happy.

That referenceability also matters a lot in this segment is like ultimately you just want – my perspective of a buyer of Guidewire is somebody that just want confidence that this is going to work. That's why I talk so much about referenceability and customer success. They're taking such a risk with these decisions and these programs that like you can't – it's not easily reversed. And so our ability to say, hey, we've got these customers. They're successfully running InsuranceNow. This product works. That's really helping us win so anyway, just great execution generally and we feel great about that.

John Mullen

President & Chief Revenue Officer, Guidewire Software, Inc.

A

I'll just add that that end of the market is super dynamic. And it's not just in the US where the smaller carriers are both dynamic and also becoming much more technology-native. But also in Australia, the distribution space, the MGA space in the small end of the market in Australia is super dynamic and that I really love the pressure that that part of the market puts on Guidewire to think about not just core processing but where the world distribution is going and where the world of dynamic product manufacturing is going. And it's just a really good exchange of information and thought patterns with that in the market.

Rishi Jaluria

Analyst, RBC Capital Markets LLC

Q

All right. Really helpful. Thank you so much, guys.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

A

Thanks, Rishi.

Alex Hughes

Vice President-Investor Relations, Guidewire Software, Inc.

Thanks, Rishi. With that, it actually is our last question, if you have any closing remarks.

Mike Rosenbaum

Chief Executive Officer & Director, Guidewire Software, Inc.

Okay. Great. No, it was an incredible quarter and we're looking forward to having a great quarter and Q4 wrapping up the year. We see a tremendous amount of momentum and potential. Obviously, we need to execute, but we're incredibly excited about the position, the strategic position of the company. So, thanks, everybody, for joining us and we'll see you on the Q4 call.

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