

Guidewire Software, Inc.

F2Q24 Wrap: Services pressures revenue outlook

Reiterate Rating: UNDERPERFORM | PO: 80.00 USD | Price: 116.93 USD

Steady Sub progress, though Services blemishes outlook

Key positives from insurance software provider Guidewire's quarter include 1) migration activity at larger insurers (3 in the qtr), 2) net new additions were solid (also 3 during the qtr), and 3) management commentary surrounding win rates/competitive positioning was constructive. However, the company's 2% reduction of FY24 revenue guidance is likely to weigh on sentiment, despite commentary that the changes were unrelated to overall demand and in line GWRE's plan to de-emphasize low margin services revenue.

2Q results mixed, FY24 rev guide lowered on Services

Guidewire reported mixed 2Q24 results with revs slightly below Street and better than expected non-GAAP operating income. Total rev of \$240.9mn (+3.6% y/y) was slightly below our \$242.2mn estimate from services revenue downside. Subscription and support rev of \$131.6mn (+24.5% y/y) was above our \$129.0mn estimate with traction in new logos and cloud adoption. Total cc ARR of \$800mn was better than previously reported guidance of \$795.5mn at the mid. Non-GAAP operating margin of 10.7% was better than our estimate of 9.0%. Guidewire slightly lowered FY24 total rev guidance by 2% at the mid to \$962mn (vs our prior estimate of \$979.5mn), maintained adj. op income guidance of \$87mn, and raised ARR guidance by 0.6% at the mid to \$857mn.

Lowering rev estimates, OpM and CFO largely unchanged

We are lowering our FY24 revenue estimates to reflect F2Q results and revised guidance, primarily within Services revenue. Our non-GAAP operating income and cash flow from operations estimates remain largely unchanged on steady profitability progress and cash collections. We reiterate our Underperform rating based on our view that risk/reward is more attractive in other software stocks, given that GWRE is trading at a CY25 growth adj. multiple (0.6x) above the SMID cap software group (at 0.4x) with higher execution risk and below peer projected rev growth.

Reiterate Underperform and PO of \$80

We reiterate our Underperform rating and PO of \$80. We update our estimates for GWRE's revised revenue guidance and margin progress. Our \$80 PO is now based on an EV/rev multiple of 5.5x CY25e rev (we roll our target multiple forward, previously 6.0x CY24e, and adjust for lower expected rev growth).

Estimates (Jul) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.51)	0.36	1.07	1.57	2.19
GAAP EPS	(2.16)	(1.36)	(0.42)	(0.02)	0.50
EPS Change (YoY)	NM	NM	197.2%	46.7%	39.5%
Consensus EPS (Bloomberg)			0.97	1.72	2.29
DPS	0	0	0	0	0
Valuation (Jul)					
P/E	NM	324.8x	109.3x	74.5x	53.4x
GAAP P/E	NM	NM	NM	NM	233.9x
EV / EBITDA*	NM	274.5x	85.0x	51.3x	36.6x
Free Cash Flow Yield*	-0.6%	0.2%	1.2%	2.0%	2.9%

* For full definitions of *IQmethod*SM measures, see page 10.

07 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	979.5	967.4
2025E Rev (m)	1,100.1	1,078.0
2026E Rev (m)	1,245.9	1,220.0
2024E EPS	0.96	1.07
2025E EPS	1.49	1.57
2026E EPS	2.10	2.19

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Stock Data

Price	116.93 USD
Price Objective	80.00 USD
Date Established	7-Dec-2023
Investment Opinion	B-3-9
52-Week Range	68.45 USD - 121.74 USD
Mrkt Val (mn) / Shares Out (mn)	9,552 USD / 81.7
Free Float	99.2%
Average Daily Value (mn)	68.33 USD
BofA Ticker / Exchange	GWRE / NYS
Bloomberg / Reuters	GWRE US / GWRE.N
ROE (2024E)	7.1%
Net Dbt to Eqty (Jul-2023A)	-33.5%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 07 March 2024 07:46PM EST

iQprofileSM Guidewire Software, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-1.8%	1.4%	4.6%	4.6%	8.3%
Return on Equity	-2.8%	2.2%	7.1%	9.7%	12.3%
Operating Margin	-5.6%	1.3%	8.8%	14.2%	18.0%
Free Cash Flow	(60)	21	114	186	275

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	1.3x	1.5x	1.6x	1.6x
Asset Replacement Ratio	0.6x	0.7x	0.9x	0.9x	0.9x
Tax Rate	21.5%	16.6%	27.0%	143.0%	30.7%
Net Debt-to-Equity Ratio	-42.6%	-33.5%	-38.7%	-47.8%	-58.6%
Interest Cover	-2.6x	NA	NA	NA	NA

Income Statement Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	813	905	967	1,078	1,220
% Change	9.3%	11.4%	6.9%	11.4%	13.2%
Gross Profit	420	495	606	676	776
% Change	1.6%	18.0%	22.3%	11.5%	14.8%
EBITDA	(19)	33	107	177	249
% Change	NM	NM	222.9%	65.7%	40.2%
Net Interest & Other Income	(17)	18	21	17	21
Net Income (Adjusted)	(43)	30	89	134	190
% Change	NM	NM	201.0%	50.4%	41.9%

Free Cash Flow Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(180)	(112)	(35)	(2)	44
Depreciation & Amortization	34	25	24	27	30
Change in Working Capital	(9)	(14)	21	43	71
Deferred Taxation Charge	(54)	(28)	(29)	(25)	(25)
Other Adjustments, Net	172	167	155	169	183
Capital Expenditure	(22)	(17)	(22)	(25)	(28)
Free Cash Flow	-60	21	114	186	275
% Change	NM	NM	444.7%	63.1%	47.4%
Share / Issue Repurchase	(37)	(262)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	976	799	905	1,091	1,366
Trade Receivables	215	239	289	322	344
Other Current Assets	61	62	64	64	64
Property, Plant & Equipment	81	54	57	60	61
Other Non-Current Assets	933	874	895	890	886
Total Assets	2,267	2,028	2,209	2,427	2,721
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	338	373	447	522	612
Long-Term Debt	358	397	398	398	398
Other Non-Current Liabilities	120	58	56	57	59
Total Liabilities	815	828	901	977	1,069
Total Equity	1,452	1,199	1,309	1,450	1,652
Total Equity & Liabilities	2,267	2,028	2,209	2,427	2,721

* For full definitions of iQmethodSM measures, see page 10.

Company Sector

Server & Enterprise Software

Company Description

Guidewire Software Inc. is an on premise and Cloud provider of applications for property and casualty (P&C) insurance companies to automate processes behind premiums billings and claims management and policy fulfillment. The company sells three core systems under the InsuranceSuite brand, including, BillingsCenter, ClaimsCenter and PolicyCenter. The company has 400+ customers, mostly large insurers with revenue > \$1 billion.

Investment Rationale

Our Underperform rating is valuation based. We expect long tail of 20% term license growth given formidable competitive advantages in the insurance industry software market, including 1) breadth of offering, spanning billings claims, sales, portal and analytics, 2) leading installed base, and 3) global SI channel.

Stock Data

Average Daily Volume 584,372

Quarterly Earnings Estimates

	2023	2024
Q1	-0.12A	0A
Q2	-0.21A	0.47A
Q3	-0.08A	0.14E
Q4	0.76A	0.46E

2Q results mixed, FY24 rev guide lowered on Services

Guidewire reported mixed 2Q24 results with revs slightly below Street and better than expected non-GAAP operating income. Total rev of \$240.9mn (+3.6% y/y) was slightly below our \$242.2mn estimate from services revenue downside. Subscription and support rev of \$131.6mn (+24.5% y/y) was above our \$129.0mn estimate with traction in new logos and cloud adoption. Services rev of \$38.2mn (-29% y/y) was well below our estimate of \$48.9mn driven primarily by a faster than expected shift of services to system integration partners. Total cc ARR of \$800mn was better than previously reported guidance of \$795.5mn at the mid. Non-GAAP operating margin of 10.7% was better than our estimate of 9.0%. Guidewire slightly lowered FY24 total rev guidance by 2% at the mid to \$962mn (vs our prior estimate of \$979.5mn), maintained adj. op income guidance of \$87mn, and raised ARR guidance by 0.6% at the mid to \$857mn. GWRE also provided initial 3Q24 midpoint guidance for total revenue and adjusted operating income at \$231mn and \$7mn respectively versus prior consensus at \$234.6mn and \$8.9mn.



Exhibit 1: GWRE's 2Q revenues were 0.5% below our estimate

Variance analysis

\$ in Thousands (except per share data)	BofA Estimates	2Q24 Actuals	Variance
Revenues			
License revenue	\$64,299	\$71,083	10.6%
Sub and support revenue	\$128,992	\$131,642	2.1%
Services revenue	\$48,905	\$38,172	-21.9%
Total revenue	\$242,197	\$240,897	-0.5%
Total cost of revenue	\$91,944	\$89,896	-2.2%
Gross Profit	\$150,253	\$151,001	0.5%
Operating expenses:			
Research & Development	\$54,494	\$55,021	1.0%
Sales & Marketing	\$39,962	\$40,109	0.4%
General & Administrative	\$33,908	\$30,188	-11.0%
Total operating expenses	\$128,364	\$125,318	-2.4%
Operating Income	\$21,889	\$25,683	
Interest income & other items, net	\$3,488	\$17,997	
Pretax income	\$25,377	\$43,680	
Income taxes	\$5,329	\$4,604	
Net Income - Pro forma	\$20,048	\$39,076	
EPS (diluted) - Pro forma	\$0.24	\$0.47	
Net Income - GAAP	(\$13,131)	\$9,687	\$22,818
EPS (diluted) - GAAP	(\$0.16)	\$0.12	\$0.28
Shares Outstanding - Pro forma	82,099	83,305	1.5%
Growth Analysis Y-Y			
License revenue	-13.0%	24.5%	37.5%
Maintenance Revenue	22.0%	24.5%	2.5%
Services Revenue	-9.0%	-29.0%	-20.0%
Total Revenues	4.1%	3.6%	-0.6%
Margin Analysis			
Cost of License revenue	97.9%	98.0%	0.1%
Cost of Maintenance Revenue	62.0%	65.0%	3.0%
Cost of Service Revenue	15.0%	-11.2%	-26.2%
Gross Margin	62.0%	62.7%	0.6%
Research & Development	22.5%	22.8%	0.3%
Sales & Marketing	16.5%	16.6%	0.1%
General & Administrative	14.0%	12.5%	-1.5%
Operating Margin	9.0%	10.7%	1.6%
Pre-tax margin	10.5%	18.1%	7.7%
Tax rate - pro forma	21.0%	10.5%	-10.5%
Net Margin	8.3%	16.2%	7.9%
Balance Sheet & Cash Flow Analysis			
Cash & equivalents	\$746,993	\$777,623	4.1%
Cash Flow from Operations	39,617	69,251	74.8%
Free Cash Flow	\$34,046	63,893	87.7%

Source: BofA Global Research estimates, company filings

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Exhibit 2: We are lowering our FY24 and FY25 revenue estimates

Estimate changes

	3Q24E				2024E				2025E			
	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth
License revenue	\$50,556	-9.0%	\$54,095	-9.0%	\$245,722	-4.4%	\$248,983	-4.8%	\$225,678	-9.5%	\$228,623	-9.6%
Subscription and support revenue	\$136,133	26.6%	\$134,351	25.0%	\$540,338	25.8%	\$543,409	26.5%	\$689,605	27.6%	\$693,742	27.7%
Services Revenue	\$48,401	-2.0%	\$41,981	-15.0%	\$193,457	-7.9%	\$175,011	-16.7%	\$184,839	-4.5%	\$155,592	-11.1%
	\$235,09		\$230,42		\$979,51		\$967,40				\$1,077,95	
Total revenue	0	13.3%	7	11.1%	7	8.2%	4	6.9%	\$1,100,122	12.3%	7	11.4%
Pro forma EPS	\$0.15	-293.2%	\$0.14	-275.7%	\$0.96	NA	\$1.07	NA	1.49	56.1%	\$1.57	47.5%

Source: BofA Global Research estimates

Exhibit 2: We are lowering our FY24 and FY25 revenue estimates

Estimate changes

	3Q24E				2024E				2025E			
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Exhibit 3: We are lowering out FY24 and FY25 revenue estimates

Income statement

\$ Thousands (except per share data)	YEAR FY22A	YEAR FY23A	Oct 1Q24A	Jan 2Q24A	Apr 3Q24E	Jul 4Q24E	YEAR FY24E	Oct 1Q25E	Jan 2Q25E	Apr 3Q25E	Jul 4Q25E	YEAR FY25E	YEAR FY26E
Revenues													
Total License Revenue	258,631	265,593	34,025	71,083	54,095	89,781	248,983	30,919	65,338	49,767	82,598	228,623	220,304
				131,64		149,78			165,58	171,48	194,49		
Subscription and support revenue	343,708	429,667	127,627	2	134,351	9	543,409	162,171	9	4	8	693,742	848,797
Services revenue	210,275	210,081	45,755	38,172	41,981	49,104	175,011	40,264	33,210	36,943	45,175	155,592	150,925
Total Revenue	812,614	905,341	207,407	7	230,427	3	967,404	233,355	7	5	1	1,077,95	1,220,02
												7	6
Y/Y Growth													
License revenue	1%	-8%	-17%	-3%	7%	-11%	-5%	-9%	-8%	-8%	-8%	-10%	-2%
Subscription and support revenue	36%	25%	28.8%	24%	25%	28%	26%	27%	26%	28%	30%	28%	22%
Services revenue	12%	0%	-17.2%	-29.0%	-15%	-5%	-17%	-12%	-13%	-12%	-8%	-11%	-3%
Y/Y rev growth	9%	11%	6.2%	4%	11%	7%	7%	13%	10%	12%	12%	11%	13%
Subscription and support revenue	181,951	193,074	44,107	46,035	48,367	53,175	191,683	60,003	61,268	62,592	70,019	253,882	302,138
License revenue	8,062	6,025	1,124	1,430	1,094	1,266	4,914	1,021	1,314	1,007	1,165	4,507	4,338
Services revenue	202,874	210,878	41,053	42,431	39,042	42,229	164,755	34,627	36,583	33,988	38,399	143,597	137,780
											109,58		
Cost of Revenues	392,887	409,977	86,284	89,896	88,503	96,670	361,353	95,652	99,165	97,586	3	401,986	444,256
Gross Profit	419,727	495,364	121,123	1	141,924	3	606,051	137,703	2	160,60	212,68	675,971	775,770
Operating Expenses													
Research & Development	192,717	206,942	52,097	55,021	55,302	60,621	223,042	51,338	56,367	55,512	62,843	226,060	243,740
Sales & Marketing	144,917	154,771	35,970	40,109	42,629	49,074	167,782	40,237	43,714	41,311	48,341	173,603	184,351
General & Administrative	127,381	121,970	28,987	30,188	33,412	37,527	130,114	29,113	29,138	28,401	37,061	123,714	127,867
				125,31		147,22			129,22	125,22	148,24		
Total Operating Expenses	465,015	483,683	117,054	8	131,343	3	520,938	120,688	0	4	5	523,376	555,958
Income from operations	(45,288)	11,681	4,069	25,683	10,581	44,780	85,113	17,015	35,752	35,384	64,444	152,595	219,812
EBITDA - Non-GAAP	(19,407)	33,159	9,026	30,690	15,857	51,512	107,084	22,347	41,749	41,338	71,969	177,402	248,652
EBITDA - GAAP	(165,907)	(124,652)	(28,339)	(6,918)	(22,300)	12,470	(45,087)	(17,676)	2,452	282	30,061	15,118	72,212
Interest income & other items, net	(17,415)	17,901	(4,382)	17,997	3,918	3,918	21,451	3,919	3,919	3,918	5,191	16,947	20,766
Pretax income	(62,703)	29,582	(313)	43,680	14,499	48,698	106,564	20,933	39,671	39,303	69,635	169,542	240,578
Income taxes	(20,179)	372	(29)	4,604	3,045	10,227	17,846	4,396	8,331	8,254	14,623	35,604	50,521
Net Income (Pro Forma)	(42,524)	29,210	(284)	39,076	11,454	38,472	88,717	16,537	31,340	31,049	55,012	133,938	190,056
EPS (Pro Forma)	(\$0.51)	\$0.36	(\$0.00)	\$0.47	\$0.14	\$0.46	\$1.07	\$0.20	\$0.37	\$0.36	\$0.64	\$1.57	\$2.19
Net Income (GAAP)	(180,431)	(111,855)	(27,071)	9,687	(21,756)	4,508	(34,632)	(16,184)	(1,808)	(3,809)	20,001	(1,799)	43,549
Diluted EPS (GAAP)	(\$2.16)	(\$1.36)	(\$0.33)	\$0.12	(\$0.26)	\$0.05	(\$0.42)	(\$0.19)	(\$0.02)	(\$0.04)	\$0.23	(\$0.02)	\$0.50
Shares outstanding (Pro Forma)	83,570	82,177	81,691	83,305	83,722	84,140	83,214	84,561	84,984	85,409	85,836	85,197	86,914

Source: BofA Global Research estimates, company filings

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Exhibit 4: GWRE ended 2Q24 with \$777.6mn in cash and cash equivalents

GWRE balance sheet

\$ Thousands	YEAR	YEAR	Oct	Jan	Apr	Jul	YEAR	YEAR	YEAR
	FY22A	FY23A	1Q24A	2Q24A	3Q24E	4Q24E	FY24E	FY25E	FY26E
Current Assets									
Cash & cash equivalents	606,303	401,813	301,419	349,989	366,902	477,091	477,091	663,395	937,959
Short-term investments	369,865	396,872	411,528	427,634	427,634	427,634	427,634	427,634	427,634
Accounts receivable, net	215,312	238,786	202,314	219,208	253,470	288,673	288,673	322,271	343,610
Deferred income taxes	0	0	0	0	0	0	0	0	0
Pre-paid expenses and other current assets	61,223	62,132	61,537	63,799	63,799	63,799	63,799	63,799	63,799
Total Current Assets	1,252,703	1,099,603	976,798	1,060,630	1,111,805	1,257,197	1,257,197	1,477,099	1,773,003
Long-term investments	187,507	128,782	140,644	155,061	155,061	155,061	155,061	155,061	155,061
Property & equipment, net	80,740	54,499	55,280	55,109	56,015	56,805	56,805	59,807	61,095
Intangible assets, net	21,361	14,473	13,106	11,739	10,372	9,005	9,005	3,979	407
Deferred Income Taxes	191,461	226,875	239,822	243,424	243,424	243,424	243,424	243,424	243,424
Goodwill	372,192	372,214	372,214	372,214	372,214	372,214	372,214	372,214	372,214
Other assets	160,933	131,442	121,733	115,343	115,343	115,343	115,343	115,343	115,343
Total Assets	\$2,266,897	\$2,027,888	\$1,919,597	\$2,013,520	\$2,064,234	\$2,209,049	\$2,209,049	\$2,426,927	\$2,720,547
Current Liabilities									
Accounts payable	40,440	34,627	19,210	21,999	46,085	51,961	51,961	58,009	65,105
Accrued compensation and employee related benefits	90,962	103,980	46,686	62,669	80,568	115,469	115,469	128,908	144,678
Deferred revenue	170,776	206,923	171,103	195,083	187,680	252,228	252,228	307,454	374,770
Convertible senior notes, current portion	0	0	0	0	0	0	0	0	0
Other current liabilities	35,340	27,731	25,376	27,325	27,325	27,325	27,325	27,325	27,325
Total Current Liabilities	337,518	373,261	262,375	307,076	341,658	446,984	446,984	521,696	611,878
LT Deferred revenue	7,500	5,988	3,915	4,072	7,453	7,299	7,299	8,897	10,845
Convertible senior notes, net	358,216	397,171	397,601	398,033	398,033	398,033	398,033	398,033	398,033
Lease liabilities	105,123	42,972	40,872	39,074	39,074	39,074	39,074	39,074	39,074
Other long term liabilities	6,883	9,030	9,185	9,152	9,152	9,152	9,152	9,152	9,152
Total Liabilities	815,240	828,422	713,948	757,407	795,371	900,542	900,542	976,852	1,068,983
Stockholders' Equity									
Common stock	8	8	8	8	8	8	8	8	8
Additional paid-in capital	1,755,476	1,831,267	1,867,467	1,903,873	1,938,380	1,973,515	1,973,515	2,116,882	2,274,822
Accumulated other comp. income	(19,845)	(13,859)	(16,805)	(12,434)	(12,434)	(12,434)	(12,434)	(12,434)	(12,434)
Retained earnings (accumulated deficit)	(283,982)	(617,950)	(645,021)	(635,334)	(657,090)	(652,582)	(652,582)	(654,381)	(610,832)
Total Equity	1,451,657	1,199,466	1,205,649	1,256,113	1,268,863	1,308,507	1,308,507	1,450,075	1,651,564
Total Liabilities & Equity	\$2,266,897	\$2,027,888	\$1,919,597	\$2,013,520	\$2,064,234	\$2,209,049	\$2,209,049	\$2,426,927	\$2,720,547

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH

Exhibit 5: We expect GWRE to generate \$136mn in FY24 CFO

GWRE cash flow statement

\$ Thousands	YEAR FY22A	YEAR FY23A	Oct 1Q24A	Jan 2Q24A	Apr 3Q24E	Jul 4Q24E	YEAR FY24E	Oct 1Q25E	Jan 2Q25E	Apr 3Q25E	Jul 4Q25E	YEAR FY25E	YEAR FY26E
Net Income (GAAP)	(\$180,431)	(\$111,855)	(\$27,071)	\$9,687	(\$21,756)	\$4,508	(\$34,632)	(\$16,184)	(\$1,808)	(\$3,809)	\$20,001	(\$1,799)	\$43,549
Depreciation & Amortization	33,540	24,838	5,442	5,492	5,761	7,217	23,911	5,778	6,442	6,400	7,971	26,591	30,108
Stock-based compensation	137,011	142,842	36,097	36,427	36,726	37,611	146,862	39,212	38,486	40,246	41,097	159,041	174,135
Excess tax benefits from equity-based compensation	0	0	0	0			0					0	0
Deferred income taxes	(54,115)	(27,516)	(13,220)	(4,170)	(6,637)	(5,127)	(29,154)	(7,289)	(5,806)	(6,215)	(6,109)	(25,418)	(24,871)
Provision for doubtful accounts	0	184	128	(322)			(194)					0	0
Amortization of debt discount and issuance costs	14,391	1,703	430	432	429	430	1,721	430	430	430	0	1,291	0
Amortization of premium of available-for-sale securities	7,608	(4,858)	(2,927)	(3,296)	(2,590)	(2,803)	(11,616)	(2,904)	(2,898)	(2,799)	(2,851)	(11,452)	(11,409)
Amortization of contract costs		13,476	4,064	4,681	4,681	4,681	18,107	4,681	4,681	4,681	4,681	18,724	18,724
Other non cash items	13,461	13,643	(29)	(1,775)	1,897	344	437	109	144	623	305	1,181	1,362
Changes in Assets and Liabilities	(9,405)	(14,062)	(74,997)	22,095	3,702	69,968	20,768	(38,680)		50,120	59,418	42,712	70,791
Accounts receivables	(24,439)	(55,778)	39,943	(16,294)	(34,262)	(35,203)	(45,816)	55,318	(30,782)	5,942	(64,076)	(33,598)	(21,340)
Prepaid expenses and other assets	(20,602)	(22,613)	(6,560)	(3,896)	0	0	(10,456)	0	0	0	0	0	0
Accounts payable	13,580	(6,080)	(16,982)	4,770	24,086	5,876	17,750	(30,348)	2,508	27,518	6,370	6,048	7,096
Accrued employee compensation	(8,942)	12,440	(54,576)	14,919	17,899	34,901	13,143	(17,460)	(29,294)	21,562	38,632	13,439	15,770
Other liabilities	(566)	23,334	1,071	(1,541)	0	0	(470)	0	0	0	0	0	0
Deferred Revenue	31,564	34,635	(37,893)	24,137	(4,021)	64,394	46,617	(46,190)	29,422	(4,902)	78,493	56,823	69,265
Cash Flow from Operations	(37,940)	38,395	(72,083)	69,251	22,213	8	136,209	(14,846)	11,525	89,678	4	210,871	302,388
Net purchases of investments	389,378	40,979	(22,853)	(24,577)			(47,430)					0	0
Purchase of property and equipment	(9,510)	(5,821)	(998)	(2,992)	(2,413)	(3,721)	(10,124)	(2,335)	(3,222)	(3,014)	(4,468)	(13,039)	(16,323)
Capitalized software	(12,266)	(11,606)	(3,692)	(2,366)	(2,887)	(2,918)	(11,863)	(2,966)	(2,784)	(2,889)	(2,889)	(11,528)	(11,501)
Acquisition of business, net of acquired cash	(55,390)	(2,210)	(250)	-			(250)					0	0
Other investing activities	0	(8,630)	0	6,508			6,508					0	0
Cash Flow from Investments	312,212	12,712	(27,793)	(23,427)	(5,300)	(6,639)	(63,159)	(5,300)	(6,006)	(5,903)	(7,357)	(24,567)	(27,824)
Proceeds from issuance of common from stock offerings	18	0	0	0	0	0	0	0	0	0	0	0	0
Payments to repurchase common stock	(37,451)	0					0					0	0
Purchase of common stock	0	(261,807)					0					0	0
Proceeds from issuance of stock from stock options exercised	98	228	0	4	0	0	4	0	0	0	0	0	0
Taxes remitted on RSU awards vested	0	0	0	0	0	0	0	0	0	0	0	0	0
Excess tax benefit from stock-based compensation	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financing activities	0	0					0					0	0
Cash Flow from Financing	(37,335)	(261,579)	0	4	0	0	4	0	0	0	0	0	0
Effect of exchange rate changes on cash	(7,161)	2,576	(4,303)	2,742	-	-	(1,561)	-	-	-	-	-	-
Net Change in cash and cash equivalents	229,776	(207,896)	(104,179)	48,570	16,913	9	71,493	(20,146)	5,519	83,774	7	186,304	274,565
Cash and cash equivalents at beginning of period	384,911	614,687	406,791	302,612	351,182	368,095	406,791	478,284	458,138	463,657	547,431	478,284	664,588
Cash and cash equivalents at end of period	614,687	406,791	302,612	351,182	368,095	4	478,284	458,138	463,657	1	8	664,588	939,152

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH



Price objective basis & risk

Guidewire Software, Inc. (GWRE)

Our \$80 PO is based on an EV/sales multiple of 5.5x our C25 revenue estimate (0.4x growth adjusted), a premium to the SMID cap software group at roughly 0.3x EV/CY25rev/G based on GWRE's position as a market leader and long-term secular tailwinds, offset by near-term headwinds with potential to pressure growth and margins.

Upside risks to our PO are: 1) quarterly license revenue upside from stronger new customer wins or cross selling of the new analytics offering, 2) margin upside from earlier than expected roll out of new features under development, 3) revenue/margin upside from better than expected execution integrating and upselling acquired offerings (Cyence, FirstBeat, Eagle Eye), and 4) pickup in economic activity leading to appreciation of the stock's multiple and increasing the premium to peers. Downside risks to our PO are: 1) pullback to the stock's multiple more than expected due to slowdown in macro sentiment or disappointing quarterly license growth, 2) negative margin leverage more than expected due to accelerated adoption of cloud based systems pressuring overall gross margins, and 3) variable pricing model facing downward pressure more than expected given increasing commoditized market for insurance and possible discounting required for larger customers.

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I, Michael J. Funk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	Asana	ASAN	ASAN US	Michael J. Funk
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	Monday.com	MNDY	MNDY US	Michael J. Funk
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Vertex, Inc.	VERX	VERX US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk
UNDERPERFORM				
	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Dropbox	DBX	DBX US	Michael J. Funk
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Smartsheet	SMAR	SMAR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
RSTR				
	Splunk	SPLK	SPLK US	Brad Sills



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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Important Disclosures

Guidewire Software (GWRE) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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