

Q2 Holdings, Inc. NYSE:QTWO

FQ1 2025 Earnings Call Transcripts

Wednesday, May 7, 2025 9:00 PM GMT

S&P Global Market Intelligence Estimates

| | -FQ1 2025- | | | -FQ2 2025- | -FY 2025- | -FY 2026- |
|----------------|------------|--------|----------|------------|-----------|-----------|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| EPS Normalized | 0.48 | 0.50 | ▲ 4.17 | 0.51 | 2.11 | NA |
| Revenue (mm) | 186.49 | 189.74 | ▲ 1.74 | 191.78 | 775.32 | NA |

Currency: USD
Consensus as of May-07-2025 11:33 PM GMT

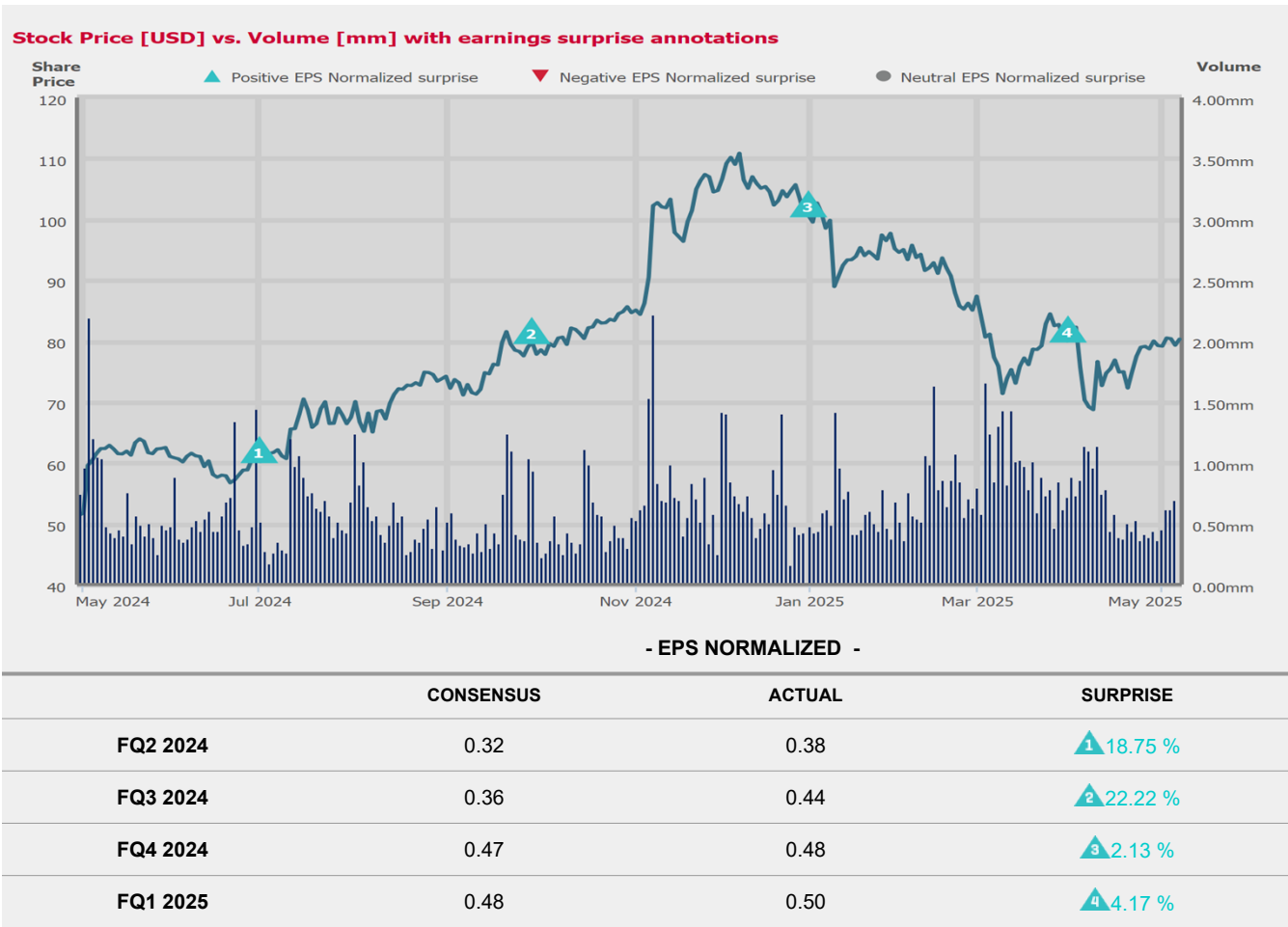


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Call Participants

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Stifel, Nicolaus & Company, Incorporated, Research Division

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

Presentation

Operator

Good afternoon. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q2 Holdings First Quarter 2025 Financial Results Conference Call. [Operator Instructions]

Thank you. I would now like to turn the call over to Josh Yankovich, Investor Relations. Sir, please begin.

Josh Yankovich *Investor Contact*

Thank you, operator. Good afternoon, everyone, and thank you for joining us for our First Quarter 2025 Conference Call. With me on the call today are Matt Flake, our CEO; Jonathan Price, our CFO; and Kirk Coleman, our President, who will join us for the Q&A portion of the call.

This call contains forward-looking statements that are subject to significant risks and uncertainties, including, among other things, with respect to our expectations for the future operating and financial performance of Q2 Holdings and for the financial services industry.

Actual results may differ materially from those contemplated by these forward-looking statements, and we can give no assurance that such expectations or any of our forward-looking statements will prove to be correct.

Important factors that could cause actual results to differ materially from those reflected in the forward-looking statements are included in our periodic reports filed with the SEC, copies of which may be found on the Investor Relations section of our website, including our quarterly report on Form 10-Q for the first quarter of 2025 and the press release distributed this afternoon regarding the financial results we will discuss today.

Forward-looking statements that we make on this call are based on assumptions only as of the date discussed. Investors should not assume that these statements will remain operative at a later time, and we undertake no obligation to update any such forward-looking statements discussed in this call.

Also, unless otherwise stated, all financial measures discussed on this call, other than revenue, will be on a non-GAAP basis. A discussion of why we use non-GAAP financial measures and a reconciliation of the non-GAAP measures to the most comparable GAAP measures is included in our press release, which is available on the Investor Relations section of our website and in our Form 8-K filed today with the SEC. We have also published additional materials related to today's results on our Investor Relations website.

Let me now turn the call over to Matt.

Matthew P. Flake *CEO & Chairman of the Board*

Thanks, Josh. I'll start today's call by sharing our first quarter results and highlights from across our business. I'll then hand the call over to Jonathan to discuss our financial results in more detail and provide updated guidance.

In the first quarter, we delivered results above the high end of our guidance, generating revenue of \$189.7 million, up 15% year-over-year. We also generated adjusted EBITDA of \$40.7 million, representing 21.5% of revenue, and we generated free cash flow of \$37.8 million.

We started the year with solid sales performance highlighted by 5 total Enterprise and Tier 1 deals, complemented by continued execution in Tier 2 and 3. In terms of net new highlights, we signed a Tier 1 relationship pricing deal in the quarter with a bank that will use our solutions to improve commercial relationship profitability across both lending and deposit product lines.

The Enterprise and Tier 1 success in the quarter was also driven by significant expansion activity within our existing customer base. For example, we had a top 50 U.S. bank sign an expansion deal for our risk and fraud solutions in the quarter. In our last call, we talked about the rising cost and complexity of fraud management, and this deal demonstrates the growing demand we're seeing for best-in-class fraud solutions. In this case, the bank signed a deal to expand their utilization of one of our fraud products, adding roughly the equivalent of a Tier 1 digital banking deal and bookings value to the partnership in the process.

Fraud mitigation is a top priority for our customers and one we believe will remain prioritized regardless of the macroeconomic backdrop.

We also continue to see Q2 Innovation Studio drive both net new momentum and stronger relationships with existing customers. As an example, United Federal Credit Union uses a variety of Q2 solutions and Innovation Studio partners, including targeted features aimed at payment flexibility and member-driven interactions to more than triple digital engagement with those features across its member base.

While we continue to drive investment into R&D, the breadth of our partner ecosystem continues to separate us in the market because of our ability to deliver innovation quickly, and stories like United provide a great example of the kinds of outcomes customers are able to drive with the combined power of our platform and Innovation Studio.

We also had another strong quarter of renewal activity, which is particularly exciting on the heels of the single largest renewal quarter in company history in the fourth quarter of 2024. In the first quarter of 2025, we signed renewals with 3 of our top 10 largest customers across digital banking, Helix and relationship pricing. These large renewals are a vote of confidence in the strength of our partnership and the criticality of our solutions. And in times of economic uncertainty, we have historically seen expansion and renewal activity accelerate.

As we have discussed on previous calls, we have had strong renewal bookings over the past several quarters, and we believe we will see a similar renewal opportunity set in 2025 and 2026 compared to what we had available over the past 2 years.

Looking ahead, I do want to provide a few remarks on our outlook for the remainder of the year. I believe our business is durable due to the mission-critical nature of our products, our strong and diverse customer base and the fundamentals of our model that have helped us execute well in other recent periods of macro uncertainty. The pandemic, the rising rates and the events in the banking sector from March of '23 underscored the importance of deposit gathering, and our solutions are essential in helping customers attract, retain, grow and protect deposits. We expect that focus on deposits to persist and has been a tailwind to our sales efforts over the last several quarters.

We have a highly strategic and diverse customer base across our solution areas, and we believe our regional and community financial institution customers play an essential role in supporting the economy, including in challenging times. In terms of what we see here in early May 2025, we continue to see a solid pipeline for the remainder of the year with a strong overall renewal and expansion opportunity ahead of us.

With that, I'll hand the call over to Jonathan to discuss our financial performance from the first quarter in more detail and provide our updated guidance for 2025.

Jonathan A. Price
CFO and Executive VP of Strategy & Emerging Businesses

Thanks, Matt. We started 2025 with a great first quarter, delivering strong results across several key metrics, including revenue and adjusted EBITDA, both of which exceeded the high end of our previously issued guidance. These results underscore the continued execution of our profitable growth strategy reinforced by another quarter of solid bookings execution and record free cash flow generation.

I will now discuss our financial results in more detail and conclude with our updated guidance for the second quarter and full year 2025.

Total revenue for the first quarter was \$189.7 million, an increase of 15% year-over-year and up 4% sequentially. Our revenue growth was primarily driven by subscription-based revenues, which grew 18% year-over-year and 5% sequentially. Subscription revenue as a percentage of total revenue continued to grow, ending the quarter at 81%, highlighting the ongoing shift in our revenue mix towards our higher-margin revenue stream. The year-over-year in sequential revenue growth was primarily driven by a combination of new customer go-lives and expansion with existing customers.

Our services and other revenues declined by 7% year-over-year, primarily driven by a reduction in our professional service revenues, which are more discretionary in nature.

While we continue to anticipate that ongoing pressure on discretionary services demand will drive further increases in subscription revenue as a percentage of total revenue, this shift also aligns with our strategic focus on higher-margin recurring subscription revenues. We believe this evolution in our revenue mix positions us well for sustainable, profitable growth in the long term.

Total annualized recurring revenue, or total ARR, grew to \$847 million, up 11% year-over-year from \$761 million at the end of the first quarter of 2024, driven by strength in our subscription ARR, which grew to \$702 million, up 14% year-over-year from \$615 million in the prior year period. Our year-over-year total ARR growth saw continued strength in net new bookings and expansion with existing customers, partially offset by the decline in professional services-based revenue we previously discussed.

Our ending backlog of approximately \$2.3 billion increased by \$74 million sequentially or 3% and \$379 million year-over-year, representing 20% growth. The year-over-year and sequential increases were primarily driven by expansion with existing customers as we renewed 3 of our largest customers in the first quarter.

As we have mentioned previously, the sequential change in backlog may fluctuate quarter-to-quarter based on the number of renewal opportunities available within that quarter. But as Matt mentioned, we believe we will see a similar number of renewal opportunities available to us in 2025 and 2026 as we did in the prior 2 years.

Gross margins were 57.9% for the first quarter, up from 54.9% in the prior year period and from 57.4% in the previous quarter. The sequential and year-over-year increases in gross margin were driven by an increasing mix of higher-margin subscription-based revenues. The sequential growth in gross margin was partially offset by a seasonal increase in compensation costs, which is typical for our first quarter.

Total operating expenses for the first quarter were \$77 million or 40.7% of revenue compared to \$73 million or 44% of revenue in the prior year quarter and \$75 million or 41.2% of revenue in the fourth quarter of last year. The year-over-year and sequential improvement in operating expenses as a percent of revenue was derived from increased scaling across all operating expense categories, with G&A showing the biggest year-over-year improvement as we continue to focus on operational efficiency and our ability to scale while maintaining investments in best-in-class innovation to meet our customers' evolving needs.

Total adjusted EBITDA was a record \$40.7 million, up 61% from \$25.2 million in the prior year period and up 8% from \$37.6 million in the previous quarter.

We ended the first quarter with cash, cash equivalents and investments of \$486 million, up from \$447 million at the end of the previous quarter. We generated cash flow from operations of \$44 million, driven by improved profitability and continued effective working capital management and generated free cash flow of \$38 million.

Although we typically experience weaker cash flow in our first quarter due to seasonally higher cash costs associated with our annual bonus and year-end commission payouts, our cash flow performance this quarter exceeded typical seasonal patterns, benefiting in part from favorable timing with larger customer invoicing. This contributed to stronger-than-expected free cash flow conversion in the quarter.

We expect second quarter free cash flow to be lower than the first quarter, but continue to expect second half free cash flow to exceed the first half of the year while remaining on track to achieve greater than 85% conversion for the full year.

Let me wrap up by sharing our second quarter and updated full year 2025 guidance. We forecast second quarter revenue in the range of \$191 million to \$195 million, and we are raising our full year revenue to the range of \$776 million to \$783 million, representing year-over-year growth of 11% to 12% for the full year. We forecast second quarter adjusted EBITDA of \$41 million to \$44 million and are raising our full year 2025 adjusted EBITDA guidance to \$170 million to \$175 million, representing 22% of revenue for the full year.

We previously communicated the expectation for full year 2025 subscription revenue growth of at least 15%, and we are now raising that outlook to at least 15.5%.

In summary, we started 2025 with strong performance across the board, delivering first quarter results that exceeded our previous expectations. This performance, coupled with our outlook for the remainder of the year, has given us the confidence to raise our full year guidance.

Despite ongoing macroeconomic uncertainties, we believe our strong financial foundation, including our healthy balance sheet, significant free cash flow generation and continued focus on operational efficiency, positions us to navigate potential challenges while prioritizing our customers' long-term success. We remain confident in our ability to continue executing our profitable growth strategy and driving long-term value for our shareholders.

With that, I'll turn the call back over to Matt for his closing remarks.

Matthew P. Flake

CEO & Chairman of the Board

Thanks, Jonathan. As we conclude the first quarter, I'll reiterate my confidence in the fundamentals of this business. First, we had a solid start to the year that underscored a few key themes. Expansion and renewal activity were both strong, and we see plenty of opportunity in these areas for the rest of the year. Fraud management, which is a growing priority for financial institutions, was a key driver of our bookings performance and something we expect to play an increasingly important role in our customer relationships. We have positive momentum and a solid pipeline for the remainder of the year.

Looking at the big picture, we remain confident in our outlook, which we believe is predicated on a few key factors. First, our solutions are essential to our customers' success, particularly in attracting and retaining deposits, making more informed decisions with tools like PrecisionLender and providing best-in-class risk and fraud solutions.

Second, our customers represent a broad spectrum of financial institutions and play a key role in supporting the economy.

And third, the visibility of our model, combined with our improving profitability profile, give us confidence around the financial outlook for the business.

Thank you. And with that, I'll hand it over to the operator for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Parker Lane with Stifel.

Jeffrey Parker Lane

Stifel, Nicolaus & Company, Incorporated, Research Division

Congrats on the quarter. Matt, clearly, there at the end, you were talking about the traction you're seeing in fraud and how this is a big priority for your end market. I was just wondering if you could give us a sense of the relative level of penetration you're seeing there. And in some of the pipeline that you see, how often is fraud part of the evaluation that these customers are doing as part of the whole digital banking RFP?

Matthew P. Flake

CEO & Chairman of the Board

Yes, Parker, it's both part of a net new deal. It's a differentiator for us, especially on the commercial opportunities. So you see it on the net new side. And obviously, we had some big expansion wins, especially at market with it. So I think it's broad-based.

Obviously, we have a lot of customers that use the fraud products, but we've added additional products to the offerings that we have. So we have a lot of green space to go get after with the fraud products, and we're going to continue to innovate in that area, both with the products we're building as well as partnering with some of our partners like Alloy and other ones in our Innovation Studio.

So a lot of opportunity there. And unfortunately, fraud has really picked up with the continued utilization of digital products, whether it's attacking the end user, the commercial customer or the bank.

Jeffrey Parker Lane

Stifel, Nicolaus & Company, Incorporated, Research Division

Got it. And Matt, you also mentioned a lot of confidence in the renewal opportunities you're seeing in scope for '25 and '26. Just wondering if you could talk about if that's the absolute number of customers relative to what you've seen that you're expecting, or is that total contract value? Any additional granularity on what's giving you that confidence around '25 and '26?

Matthew P. Flake

CEO & Chairman of the Board

I'll have JP take that.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes, Parker, it's Jonathan. So the easy answer to that is it is -- the reference to the metric that Matt made in the call is the number of opportunities, meaning the number of logos that are up for renewal during the period of '25 and '26 relative to what we saw get done in '23 and '24.

Operator

Your next question comes from Alexander Sklar with Raymond James.

Alexander James Sklar

Raymond James & Associates, Inc., Research Division

Matt or Jonathan, just in terms of the macro comments you made at the outset, I know you've got a high degree of visibility in the model for 2025, but did you incorporate any different potential macro assumptions into the raised outlook relative to the last quarter?

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

No, not from a macro perspective. Obviously, we have a lot of visibility into the '25 numbers. And with the benefit of Q1 behind us and the Q2 guide out there, there are some things that can happen throughout the year when it comes to cross-sell and renewal activity

that can have an impact. But from a P&L perspective, we have a lot of confidence in the 2025 outlook. And we'll look towards 2026 based on the execution that we ultimately deliver here in '25.

And then when it comes to bookings, that we'll see as the year goes on. And obviously, that will have the biggest impact on any changes relative to what we've already shared on 2026 P&L.

Alexander James Sklar

Raymond James & Associates, Inc., Research Division

Okay. Great. And Matt, maybe 1 follow-up for you. You talked about strength beyond the Tier 1s in the presentation. It looks like the credit union mix of [arrows] stepped up. It's not something we've talked about a ton recently. What are you seeing from that section of your market in terms of priorities there? Is there any increasing focus on the commercial side of the house or with fraud that's seen you put focus more there on that segment of the market?

Matthew P. Flake

CEO & Chairman of the Board

Yes. On the credit union side, we're performing well there. It's -- we really are upmarket in the credit unions. 40% of the top 100 credit unions are customers of ours, and a lot of those credit unions are looking to diversify their book and to get more commercial customers. And so when they have the retail platform in, it's a single platform. They can add on demand the commercial functionality they want, and they usually go micro and small business first and then grow into larger. Commercial lease that's their hope. And so we're just a great fit for them.

And then you couple it with the fraud solutions we have, the operating discipline that we have around running a commercial bank. We have consultants that can help them build their practice. It's a really nice fit for us. I think it's a big opportunity for us as it has been in the past, and it will be moving forward.

Operator

Your next question comes from Terry Tillman with Truist Securities.

Terrell Frederick Tillman

Truist Securities, Inc., Research Division

Congrats on the quarter. And sorry in advance here if there's any background noise. But my first question is -- I appreciate the idea of the number of opportunities is pretty similar in '25 and '26 versus '23 and '24. I'm curious though in '25, Jonathan, because people do look at kind of backlog and certain KPIs each quarter. Is it pretty linear across the quarters in terms of the renewals base that you're looking at? And what kind of uplift are you seeing in these bigger renewals? And then I have a follow-up.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. So it is definitely not linear. So we don't guide, obviously, the number of opportunities by quarter. But over the course of the 2 -- what we're trying to make sure that the investor base understands is that over the next 2 years, that we have a similar size of opportunity set in terms of the number of logos. I think there was a narrative on the back of Q4, which was our largest renewal quarter in the history of the company, that that would act as a headwind or that we pulled forward because of the commentary about out-of-scope renewals last quarter. And I think we just wanted to make clear that as strong a year as 2024 was, in particular from renewals, we have an equally strong opportunity ahead of us over the next 2 years. So I wouldn't interpret it any more into that than that.

And then as far as quarters, because the timing of these things are like a deal with much shorter sales cycles potentially, but you never know when the actual renewal may come in relative to the termination date on the contract. So there's just a lot of volatility in the specific timing of which quarter it will fall in.

Terrell Frederick Tillman

Truist Securities, Inc., Research Division

Understood. And maybe just my follow-up question is Innovation Studio. I think a couple of quarters ago, the business plan for what Innovation Studio could do for one of the customers that was going to help fund the deal, whether it's those kind of aha moments or just potentially when rev share or some of the partner fees could start to kind of add up to something meaningful on the income statement, just anything more you can show on the Innovation Studio strategically.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. I can share some thoughts and, Kirk, you can jump in if you have anything to add. But the [indiscernible], all of the things you mentioned in terms of the stories' value that we're bringing to customers continue to be strong. We have our client conference coming up here in a couple of weeks where we're going to have our customers on stage sharing new stories and new anecdotes of the impact it's having. So I guess what I can say, Terry, is that the flywheel is continuing to turn, and we're seeing more and more traction and progress against all of those KPIs. And we're just really pleased with the adoption where we're at a record-high number of FIs that are using this now. And as we've talked about several quarters in a row now, virtually every deal on the net new side is citing it as a key reason for choosing us. So we're -- our motion around helping the FIs is better, and we're seeing the results. I don't...

Kirk L. Coleman

President

The only thing I'd add is the breadth, really strong breadth in terms of the application of Innovation Studio across consumer small business and commercial, really like to see that diversity. So we see it growing strong on all 3 fronts.

Operator

Your next question comes from Adam Hotchkiss with Goldman Sachs.

Adam R. Hotchkiss

Goldman Sachs Group, Inc., Research Division

Matt, you mentioned 3 renewals with your top customers. Any commonalities in your conversations with those customers and what they're focused on? I think you've mentioned fraud. We've heard in the market a lot of excitement around things like account opening. I'm just curious if anything has changed maybe over the last 3 to 4 months given everything that's going on in terms of FI priorities.

Matthew P. Flake

CEO & Chairman of the Board

Yes. Well, these were all -- what we said in the script was it was one of the largest digital banking customers, one of the large Helix customers and one of the largest PrecisionLender customers. So you've got a broad swath of type of companies -- of businesses there.

But first of all, I think that the renewal is a statement that we're doing a great job for them, and they want to continue to work with us. But largely, it's what am I going to switch to? These are the best products in their categories, and they're going to stay on them, and they want to stay on them. So it's really a validation of how we're doing in the marketplace. They get to see whether we're winning and losing. They go look at everybody else's solution. Everybody gets to do their dog and pony, and they stick with us. So that's really what I take from it. There was not any commentary around the economy or anything like that.

Adam R. Hotchkiss

Goldman Sachs Group, Inc., Research Division

Okay. Yes, that's helpful. And then, Jonathan, I wanted to ask around gross margin improvement. I think you've had a number of quarters now of sequential gross margin improvement as we sort of work towards the 60% range. How should we think about gross margin progression over the next 1 to 2 years? And what are the drivers there?

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. Thanks, Adam. Yes. We're going to continue to see progression, I think, between -- continued progress when it comes to pricing and packaging and value capture overall, both on the net new side and at renewal and cross-sell as well as some of the cost-efficiency measures we've taken, they continue to yield benefit for us.

And then as we get into 2026, as we've talked about before, that's when we see the more significant step-up as we migrate out of the data center into the public cloud fully on the digital banking product. And that has the biggest impact in calendar '26.

So it's a whole set of initiatives that take time that we've talked about over the last couple of years and will continue for the next couple as well as pricing initiatives on the top line and then the cloud migration that we think will get us to 60% and beyond as the next couple of years roll on.

Operator

Your next question comes from Dan Perlin with RBC.

Daniel Rock Perlin
RBC Capital Markets, Research Division

Just, Matt, I wanted to cycle back a little bit on just kind of the near-term macro conversations that you've had with clients lately. Are you seeing any indications of client behavior changes? One of your competitors this morning mentioned kind of nervousness around discretionary spending, which I know is a little bit different for you guys in terms of what you define as discretionary and they do. But like it did sound like things were getting a little more cautious, not on the sales motion necessarily, but like on things that could get paused, were putting on pause. And I'm just wondering if you're having any of those similar conversations today.

Matthew P. Flake
CEO & Chairman of the Board

Yes, we're having a lot of conversations with customers and prospects. And I don't -- nervousness is probably the right word to use, but they're not seeing it show up in their credit books or on the deposit side. But if you look at the top of the funnel, the pipeline we have, the deals we're working, there's been no slowdown in those. And our top of the funnel, we had strong growth in the first quarter, and that kind of feeds the rest of the year. So other than the conversations we all have around what's going to happen, are they going to get deals done, is there a recession, whatever all the topics are, they feel good about their business. They're in a good spot. So there's nothing out there.

Kirk, do you want to add anything? I know you talk to a lot of banks as well.

Kirk L. Coleman
President

Yes. I'd just add that our customers, we mark them against the field. We pull all their call reports, and they outperform their peers. We got a really strong customer base. They're continuing to stay focused on being great operators. They're well reserved in terms of where they stand from their loan books. And so yes, there's some uncertainty out there, for sure. And you sort of saw that in some of the commentary on their earnings calls, but they had very solid first quarter earnings.

So I'd say everyone is kind of trying to look around the corner and figure out kind of where the economy is going to go. But at the moment, they're not changing their priorities in terms of what they're focused on. And so having great digital experiences controlling for fraud, pricing their relationships correctly, these are all still top priorities for them.

Daniel Rock Perlin
RBC Capital Markets, Research Division

Yes. No, that's great color. And then just quickly on the cash flow. Again, like really strong free cash flow this quarter. And as you pointed out, you're kind of exceeding the seasonal patterns. I just want to make sure I understand what that means. I mean, you kind of gave the cadence for the year. But you called out larger client invoicing, and it would seem as though you kind of continue to kind of punch above your weight going up and up and up in terms of client sizings, winnings and renewals. So I'm just wondering, is there going to be a point at which it's going to just change naturally? Wouldn't you need to be mindful of that, understanding like the conversion would still be in the kind of mid-80s, but the cadence seems like it's changed a bit. And I'm just wondering if that's a one-off or if that's something we need to be prepared for.

Jonathan A. Price
CFO and Executive VP of Strategy & Emerging Businesses

Yes. I mean, it's a good question. At the end of the day, I think we're continuing to execute really well, obviously, on the profitability side, but then converting that to cash flow. There was, I'll call it, an anomaly in the first quarter where we had 1 very large customer switch from a monthly cadence to an annual payment, and we collected that at the end of the first quarter. So that's really what I would call sort of a pull forward from what would otherwise have been spread throughout the year into the first quarter. So that certainly inflated the first quarter outcome. And that's where, on the call, I mentioned that the second quarter, you might see a dip, but the full year prognostication remains. And to your point, I think we feel really strongly about our ability to convert EBITDA to free cash flow at very high rates, and we're just getting better and better at it. So there is 1 dynamic, though. So it's a good call out from a first quarter perspective, but it doesn't change the way we think about the rest of the year and beyond in terms of continuing to push that number up.

Operator

Your next question comes from Joe Vruwink with Baird.

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

I wanted to ask about the commercial suite. Matt, I think you brought it up as strong in the credit union space. Some of your peers have been mentioning higher attach and their activity. Certainly, it has seemed to be a focus of banks year-to-date. I guess my question is, does that sentiment change at all in response to tariffs? I mean I'd imagine business accounts are the ones that are really going to have to contemplate additional pressure. Does that cause your bank customers to refocus on the consumer side at all? Does it change the overarching directives?

Matthew P. Flake
CEO & Chairman of the Board

I haven't heard that from any bank. They want -- what they want to do is they want to have more engagement with those commercial customers after March of '23 when the -- whatever that was with the crisis with Signature and Silicon Valley. In particular, you saw a big lift in our pipeline because they realized they were just using it for balance and transfer capability, and they wanted to begin to have them operate their business with it, whether it's ACH wires, entitlements, reporting and fraud products.

And so I think what happens is, is they really lock in on these customers and try to drive more products in there so that they can make them sticky. And keep in mind, these are -- they generate revenue off of these customers more than they do retail. It doesn't mean they're not paying attention to the deposit side with the retail customers. But if anything, you want to lock in more with your customers because they're harder to get new ones. So it should drive more utilization of the product, more products. And I think you're seeing some of that with the expansion results that we had in the quarter.

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

Yes. Okay. Great. And then just on the subscription ARR, I think it grew maybe 1 point faster than the registered user growth in the quarter just given all the attention on commercial and the fraud products, the expansion activity. Do you think the ARPU growth might actually start picking back up through the remainder of the year?

Jonathan A. Price
CFO and Executive VP of Strategy & Emerging Businesses

Yes. I mean, there's a lot there because we did see in the first quarter a significant jump in the number of registered users on the retail accounts, the metric we disclosed publicly, and that was a lot of drivers, but one of the big ones was one of the large go-lives we had in the quarter with the top 10 credit union. And so that certainly pushed up the number of users in that count.

But when you think about your ARPU point going forward, the reality is, is as the mix of commercial continues to grow, that will typically come at higher ARPU, but with less user adds inherent in a commercial bank relative to a retail bank. So we're watching both numbers. I don't think that the retail metric, the 26-plus million users, is a great barometer for thinking about long-term economic business, especially if you think about ARPU as it [links] more to commercial.

Operator

Your next question comes from Michael Infante with Morgan Stanley.

Michael Nicholas Infante
Morgan Stanley, Research Division

One of your competitors earlier today had discussed the fact that they're starting to see higher levels of bank M&A broadly amongst their base. Anything you would share just in terms of what you're seeing amongst your customers and whether or not your typical win rate in those situations is in line with historical trends?

Matthew P. Flake
CEO & Chairman of the Board

Yes, Michael. Well, Q1 was the lowest number of transactions in the last 3 years that I can see. I think there's 46 of them. The good news for us is we had 21 acquisitions or MOEs in our customer base, and we were the surviving entity in 20 of them. So that data holds true. It's been 90% plus over the last 3 years, and it said -- I guess that's 95% doing quick math.

But I think in this uncertain environment, it's slowed down a little bit. I would think there's going to be some pent-up demand whenever we get through this, assuming we get through it in the next couple of quarters, and you'll see it pick back up. But like I said, it was the lowest quarter we've seen in the last 3 years in Q1. But they are talking about it. You got to have a buyer and a seller in the situation, and I think it's probably going to take a couple of quarters before it comes out.

Michael Nicholas Infante
Morgan Stanley, Research Division

Very helpful. And then, Jonathan, just on the 3 large renewals that you cited, is there anything you would call out in terms of pricing or duration evolution in those renewals specifically? I take your commentary on having to execute over the next few quarters from a bookings perspective, but if I just think through some of the drivers of the subs revenue growth, do you sell that, you expect in '26, aside from the comp getting tougher, you're still not really seeing that normalization in the renewal opportunity. You still have a similar number of logos over the last couple of years. The Tier 2 and Tier 3 cohort is still really strong. And now you're taking up your '25 subs growth expectations. So just wanted to make sure we're sort of thinking about some of the pricing and duration dynamics.

Jonathan A. Price
CFO and Executive VP of Strategy & Emerging Businesses

Yes, they were actually pretty typical. Again, Matt mentioned the 3 that we called out on the call, large customers in each of digital banking, Helix and PrecisionLender and the duration. And candidly, the terms were very typical for those respective businesses. So on the digital banking side, those tend to be a little longer in duration, whereas more typical on the PrecisionLender or the Helix side are 3-year deals. So those were standard. All 3, we're very happy with the terms we got. So nothing there that was unusual or notable when it comes to either duration or excess terms. But like a lot of the renewal performance we saw in 2024, Q1 was marked by strong renewal economics across the portfolio of deals that we did. So obviously, if that continues, we feel that impacts, to some extent obviously, in '25, given we're done Q1, but that also rolls through into the forward years. So we just got to keep executing like that as the year rolls on, and that'll benefit us as we move out to '26 as well.

Operator

Your next question comes from Chris Kennedy with William Blair.

Cristopher David Kennedy
William Blair & Company L.L.C., Research Division

Just wanted to follow up on the last question. As we think about 2026 subscription revenue growth, you put the floor of 13% out there. Any more color on that?

Matthew P. Flake
CEO & Chairman of the Board

Not sitting here today yet, Chris. Obviously, we talked about when we put that out, the variability that exists and the comfort level we have is based on our plan at the beginning of the year, and we have a lot of time left in 2025 to go and execute. And as we talked about, feel really good about the P&L in '25, but there's plenty of variability in terms of the '26 P&L when you think about bookings attainment the rest of this year. And so we're just -- we're not going to be commenting on '26 further until we have the visibility to get more on it. But still feel really good about what we have out there and both in the 3-year framework as well as the '26 subs growth target that we put out there, but don't have any more to add to that yet until we see more of this execution play out.

Cristopher David Kennedy
William Blair & Company L.L.C., Research Division

Understood. And then just real quickly, capital allocation. There's been a lot of M&A activity out there in the market. Any observations on valuations of private companies or anything you want to talk about?

Jonathan A. Price
CFO and Executive VP of Strategy & Emerging Businesses

I mean, there have obviously been. Especially in Q1, we saw a few deals in our space, including one on the account opening side. Some of our larger peers doing some large deals. But yes, I mean, the ones we looked at, we still felt valuation was incredibly high. And probably more importantly, just each one, we have a different strategy when it comes to the product itself in those cases. So we're watching. The corp. dev. pipe is active. We think we're in a strong position, both with the balance sheet strength and the free cash flow generation, to be a strategic partner in the long term, but finding the right assets, finding them at the right valuation and with the right

profile that matches our new profile that we've developed over the last couple of years is just a lot of things have to line up. And so we have not seen that happen yet, and candidly, not even that close.

Operator

Your next question comes from Dominick Gabriele with Compass Point.

Dominick Joseph Gabriele

Compass Point Research & Trading, LLC, Research Division

I was just curious if you could discuss the subscription growth that you're seeing in the quarter, which was better than expected, versus the slight deceleration you're seeing in the ARR growth year-over-year. What could cause the differential there? And which one of those do you think is going to follow the other, I guess, as you look ahead?

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. So firstly, the subs ARR metric will be the leading indicator to subs revenue. So if you look at last year's subs ARR metrics, I think what we're seeing in 2025 is really a reflection of the pattern we saw in subs ARR last year, meaning last year, first half, we saw subs ARR retire levels in the 18%, 19% range then decelerating down to sort of 17% down to 14%, 15% exiting 2024. And that's what you're sort of seeing in our subs revenue growth here in 2025, obviously, starting the year with an 18% year-over-year growth. So the way you should think of it is the ARR metric is more of the leading indicator. These things don't time perfectly at all. It's not like you should look at the Q1 subs ARR and it's going to be a perfect match to the following year's Q1 subs revenue growth. But directionally, it gives you the pattern, and that's sort of the dynamic. Think of the subs ARR number as really what we're booking and ultimately, have to deliver to get to revenue; and then the subs revenue growth is the actualization of that revenue on the P&L.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.

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