

Q2 Holdings, Inc. NYSE:QTWO

FQ4 2025 Earnings Call Transcripts

Wednesday, February 11, 2026 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2025-			-FQ1 2026-	-FY 2025-			-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.61	0.68	▲ 11.48	0.72	2.38	2.47	▲ 3.78	3.05
Revenue (mm)	204.84	208.22	▲ 1.65	214.17	791.51	794.81	▲ 0.42	875.38

Currency: USD

Consensus as of Feb-12-2026 5:06 AM GMT

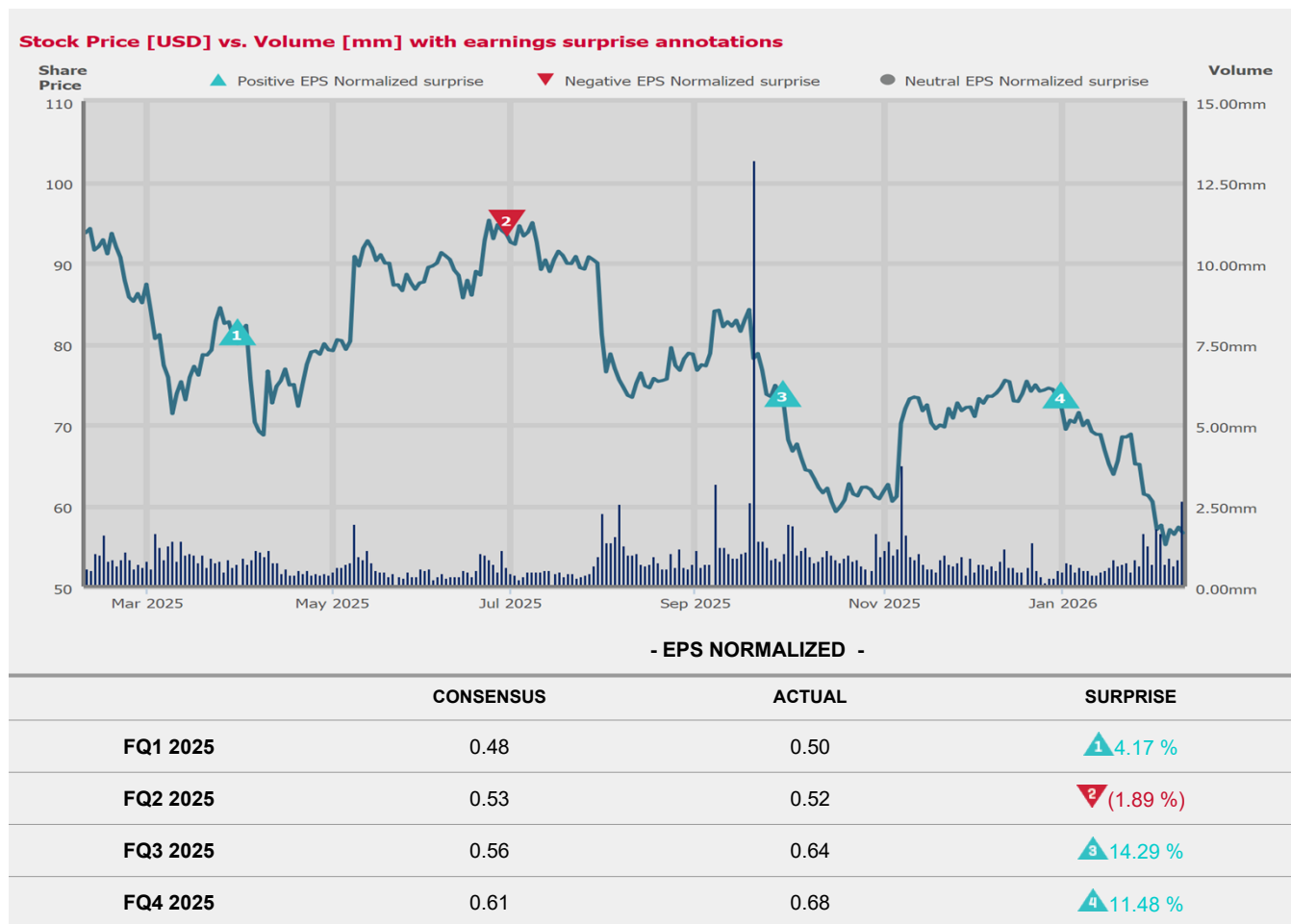


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Call Participants

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Presentation

Operator

Good afternoon. My name is Kevin, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q2 Holdings Fourth Quarter and Full Year 2025 Financial Results Conference Call.

[Operator Instructions]

I will now hand the conference 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 fourth quarter and full year 2025 conference call.

With me on the call today are Matt Flake, our CEO; and Jonathan Price, our CFO.

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 annual report on Form 10-K for the full year 2025 and the press release distributed this afternoon and filed in our Form 8-K with the SEC regarding the financial results we will discuss today.

Forward-looking statements that we make on the 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 *President, CEO & Chairman of the Board*

Thanks, Josh, and good afternoon, everyone. Thank you for joining us today. I'll start by walking through our fourth quarter results and highlights, then step back and recap full year 2025 performance before sharing the key themes that define our strategy as we enter 2026.

I'll then hand the call over to Jonathan, who will cover our financial performance, provide guidance for 2026 and share our new financial framework.

Starting with the fourth quarter, we delivered a strong finish to the year with performance that reflects solid execution across bookings, revenue and profitability.

In the fourth quarter, we generated strong year-over-year subscription revenue growth of 16%, expanded our adjusted EBITDA margins by over 400 basis points year-over-year and produced meaningful free cash flow of \$56.6 million.

While Jonathan will walk through the numbers in more detail, the headline is that we closed the year with strong results across all of our key financial metrics.

We had an outstanding quarter on the bookings front. The fourth quarter was our second largest bookings quarter in company history and came directly on the heels of a record third quarter. This performance underscores both the strength of demand and our ability to execute, particularly in the larger, more complex deals.

As we said at the start of 2025, we expected our larger deals to be weighted toward the back half of the year, and that expectation continued to play out in the fourth quarter with 8 total Tier 1 and enterprise deals, notable wins included the Tier 1 institution that purchased both relationship pricing and commercial digital banking, a \$40 billion digital banking customer that expanded its commercial and new fraud products and a Helix deal with the top 5 credit union.

Within our sales execution during the quarter, we continued to see a healthy balance of net new and expansion activity, which remains a defining characteristic of our bookings performance.

Stepping back to the full year, 2025 was our strongest year as a company across bookings, revenue and profitability. On the sales front, we executed well in a strong demand environment. We saw consistent activity upmarket throughout the year, with a total of 26 enterprise and Tier 1 deals, expansion continued to play a critical role in our bookings profile with half of those Tier 1 and enterprise deals coming from expansion with existing customers and the other half driven by new logos.

Those wins came from across the product portfolio, and we feel good about the momentum in each of our major product areas.

Our digital banking platform provided a strong foundation for our bookings success contributing a diverse range of deals across banks and credit unions, large and small, retail and commercial, demonstrating the competitive strength of our platform approach.

Relationship pricing delivered solid performance throughout the year, highlighted by strong net new execution in the Tier 1 space, the successful go live of the top 5 bank and the long-term renewals with multiple top 10 U.S. bank customers.

Risk and Fraud remained one of our fastest-growing product lines in 2025 as well. Financial institutions are increasingly prioritizing investment in fraud mitigation solutions. And as a result, our risk and fraud solutions consistently performed as stand-alone products helping new customers for Q2, and regularly showed up as our top cross-sell product as well.

They also contributed meaningfully to our success up market throughout the year, including the largest fraud deal in company history with a \$200 billion bank. Lastly, as bank M&A activity began to pick back up in 2025, it contributed positively to our business as institutions continued to overwhelmingly choose Q2 Solutions post transaction of the M&A deals involving a Q2 customer in 2025, 93% of them chose Q2 as a go-forward solution.

We believe our experience in effectively executing post-acquisition technology conversions is a competitive advantage for us and one that helps our customers derisk their transactions and realize value in their M&A deals.

Looking beyond sales and product success, 2025 was also a year which we successfully executed against our profitable growth strategy. Today, we'll unveil a new financial outlook, which Jonathan will share shortly. With that in mind, I want to take a minute to share our product strategy and why we're confident in our ability to execute against our long-term vision.

At the core of our business is digital banking, where our single platform approach continues to resonate with a heightened focus on deposit growth and retention, our platform gives financial institutions the ability to streamline their technology environments, while also providing best-in-class experiences that help them compete for win and retain critical relationships across retail, small business and commercial customers.

Within the single platform, our commercial banking solutions remain a particularly important growth driver. We believe the maturity of our commercial solutions, combined with the usability of our modern interface give us a durable competitive advantage. To demonstrate the scale of our commercial solutions, in 2025, we processed over \$4 trillion in transaction volume, representing 21% year-over-year growth, with December being our first month ever to break \$400 billion in transaction volume.

As customers continue to invest in modernizing their commercial capabilities to support deposit growth, improve profitability and compete more effectively upmarket our scale and continued investment translated directly into both new wins and meaningful expansion opportunities.

Rounding out the digital banking story, Innovation Studio has become a foundational component of our strategy. In 2025, nearly every net new digital banking deal included Innovation Studio. And we continue to see it deepened relationships with existing customers. It's enabling faster product delivery, better economics and stronger engagement. And as new priorities like AI emerge in financial services, we believe Innovation Studio puts Q2, our partners and our customers in a position to adapt swiftly, reinforcing Q2's role at the center of innovation in the banking industry.

Relationship pricing is another area where we continue to see strong demand. Customers are using these solutions across loans, deposits and fee-based products to enhance profitability and improve consistency across their organizations.

We believe this is a best-in-class solution in an area of growing demand, and it remains a key entry point into some of the largest financial institutions in the country. Lastly, as we look ahead to 2026, risk and fraud has emerged as one of the most strategically important areas in our portfolio.

And as financial institutions elevate their focus on fraud mitigation, fraud is no longer episodic or confined to a single channel. It's continuous, cross-channel and embedded in nearly every digital interaction across retail, small business and commercial banking.

As a result, financial institutions are placing greater emphasis on greater -- and greater investment on modernizing how they manage fraud. At the same time, the traditional approach of relying on fragmented point solutions is becoming increasingly complex and costly.

While these tools can be effective in isolation, managing fraud across a growing number of channels and threats requires faster coordination, better visibility and the ability to respond in real time, something that can be difficult to achieve with disconnected systems.

We believe Q2 is uniquely well positioned to meet this moment. Our stand-alone risk and fraud solutions continue to be strong land-and-expand products for the business, including with some of the largest enterprise and Tier 1 institutions. Customers frequently adopt multiple fraud solutions over time and frog that relationships often expand into broader partnerships across the Q2 portfolio.

In addition, because of the central role our digital banking platform plays in customers' operations and data flows, we have earned access to the data, signals and real-time contexts that are increasingly critical to fighting fraud more holistically.

Looking into 2026, we believe this combination of proven stand-alone solutions and a platform-level approach position us well to capitalize on growing demand and help financial institutions address fraud more effectively.

Before I hand it over to Jonathan, I want to spend a moment discussing our approach to AI, which we view as an important enabler of our long-term strategy for a few key reasons.

First, we believe our single platform puts us in the best position of any financial institution partner to deliver meaningful AI innovation. We occupy the center of our customers' digital experiences in retail, small business and commercial relationships. This allows us to deliver AI solutions that execute high-value banking operations for both bankers and end users across a wide range of use cases.

Second, because of that privileged position, the data that powers our platform makes us the system of context for our customers. For financial institutions, the core processor serves as the transactional system of record.

At Q2, however, we sit in the flow of every digital interaction and see every log in, transaction, alert, message and user decision, coveted data that gives us the real-time signals needed to understand what's happening and what should happen next.

The most effective AI solutions rely on specific context to create value. And we believe that the rich data we generate in the platform gives us a tremendous amount of banking-specific context that can be additive to value generation and differentiate it from other solutions.

And finally, after many conversations with customers over the past few years, we firmly believe that our regional and community financial institutions will depend on us as a trusted partner as they go on this journey with AI.

Because of our strategic role and experience in supporting digital innovation for our customers, we believe it's our duty to help our customers navigate AI, just like we did with Internet banking, mobile and cloud. Our customer base and established ecosystem model opens a valuable distribution channel to other AI innovators looking to serve this market efficiently.

The combination of these factors is why we believe AI innovation within financial services will flow through Q2, not around us. And we believe we are well positioned to translate that into tangible outcomes for our business over time. We intend to continue to use AI to enhance existing products and build new ones more efficiently, unlocking new bookings and revenue potential over the long term.

We've also identified several important areas where we can help deliver value with AI to our customers, including fraud, personalization, back office, banker-facing operations and tasks across the Q2 portfolio.

We have several products across these areas that are live or an early adopter stage today. Over time, we believe our product innovation can create monetization opportunities that we will continue to evaluate as part of our long-term operating model.

Next, we believe that in the near future, embedded AI capabilities will become integral to delivering digital banking. This is where we believe our platform approach and our deep integration set give us a competitive advantage. And today, we are building platform-level AI innovation like AI-assisted coding capabilities for developers on our platform and AI-enhanced Q2 support tools to even further improve the customer experience.

Lastly, we believe AI will play a meaningful role in providing operating efficiency back to our business over the long term. We're already using AI to improve how Q2 operates across core functions like support, delivery and engineering, improving efficiency and scalability that we believe can support long-term margin expansion, while making our teams faster, more skilled and more productive.

Let me now shift to what we're seeing in our pipeline as we head into 2026. We exited '25 with a very strong back half bookings performance. And at a macro level, fundamentals of our end market remain solid with improving credit quality, stable margins and reaccelerating M&A activities, all supporting a constructive demand environment as we enter 2026.

And from a pipeline perspective, we continue to see healthy pipeline activity across both net new and expansion opportunities with particular strength in larger deals where our platform approach and product portfolio differentiate us.

As was the case last year, we do expect Tier 1 and enterprise activity to be weighted toward the back half of the year. Overall, we feel great about our momentum and pipeline, and we're confident in our ability to continue executing in 2026 and beyond.

With that, I'll turn the call over to Jonathan to walk through our updated guidance and long-term outlook.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Thanks, Matt. We're pleased to announce fourth quarter and full year results that outperformed the high end of our guidance. As we delivered strong results across several metrics, which demonstrated continued execution of our profitable growth strategy. We saw growth in our subscription-based revenues, advanced our operational efficiency and exceeded our free cash flow conversion target of at least 90%, enabling us to improve capital allocation. We believe our record backlog and solid subscription ARR growth positions us well for continued success in 2026 and beyond.

With that, let me start by discussing our financial results in more detail, and I'll finish with our 2026 guidance as well as our longer-term financial framework.

Total revenue for the fourth quarter was \$208.2 million, an increase of 14% year-over-year and 3% sequentially, driven by subscription-based revenues, resulting largely from the delivery of new customer go-lives and expansions with existing customers.

Total revenue for the full year was \$794.8 million, up 14% from the prior year, representing our highest annual growth rate since 2021. Subscription revenue growth for the full year was 17% and represented 82% of total revenue.

Based on the strength in subscription-based bookings we observed throughout 2025, we expect the mix of this high-margin revenue stream to continue increasing as a percentage of our overall revenue mix in 2026.

Total nonsubscription revenues increased by 2% for the full year in 2025, partially driven by an increase in services revenue, which benefited from an easier comparison versus the prior year as well as higher professional services revenues, primarily driven by M&A-related core conversions.

Total annualized recurring revenue, or total ARR grew to \$921 million, up 12% year-over-year from \$824 million at the end of the fourth quarter of 2024.

Our subscription ARR grew to \$780 million, up 14% from \$682 million in the prior year period. Our year-over-year subscription ARR growth was largely driven by bookings from new customer wins as well as expansions with existing customers.

Our total ARR growth remains below subscription ARR growth driven by the recent trends we've discussed in nonsubscription-based revenue over the last few years. Our ending backlog of \$2.7 billion, increased by \$175 million sequentially or 7% and \$472 million year-over-year, representing 21% growth.

The year-over-year and sequential increases were supported by booking success across new expansion and renewal activity. While we continue to see ample opportunity ahead, 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.

Our trailing 12-month total net revenue retention rate for 2025 was 113%, up from 109% in 2024. When looking at only subscription-based revenues, our subscription net revenue retention rate ended the year at approximately 115%, compared to 114% in 2024.

Our revenue churn for 2025 was 5.2%, compared to 4.4% in 2024, reflecting an increase in overall M&A activity year-over-year. As a reminder, heading into the year, we expected a higher level of M&A activity relative to prior years.

As Matt mentioned, we continue to be selected as the go-forward solution in the vast majority of M&A transactions within our customer base. While this activity can influence churn trends in a given period, M&A has consistently been a net positive as we have largely retained and expanded our relationships as a result of those transactions.

Gross margins were 58.6% for the fourth quarter, up from 57.4% in the prior year period and 57.9% in the previous quarter. Both the year-over-year and sequential increase in gross margin were driven by an increasing mix of higher-margin subscription-based revenue.

Gross margins were 58% for the full year, up from 56% in the prior year, representing approximately 200 basis points of improvement. This margin expansion was driven by an increasing portion of subscription revenue in our overall mix, coupled with enhanced operational efficiencies from our global workforce and partially offset by increased costs related to our cloud migration, which we completed in January 2026.

Total operating expenses for the fourth quarter was \$78.9 million or 37.9% of revenue, compared to \$75.4 million or 41.2% of revenue in the fourth quarter of 2024, and \$76.1 million or 37.7% of revenue in the previous quarter.

The year-over-year improvement in operating expenses as a percent of revenue was largely derived from continued scaling across G&A and sales and marketing, while the modest sequential increase was driven by higher research and development costs as we continue to invest across the areas Matt discussed earlier.

Full year operating expenses of \$306.7 million represented 38.6% of revenue in 2025, down from 42.3% of revenue in the prior year period. The improvement in operating expenses as a percent of revenue for the full year was driven by higher revenues and a focus on operational efficiency, primarily manifested within G&A and sales and marketing.

We ended the year with 2,549 total employees, up from 2,476 at the end of 2024, with the majority of additional resources onboarded within R&D.

Total adjusted EBITDA was a record \$51.2 million in the fourth quarter, up 36% from \$37.6 million in the prior year period, and up 5% from \$48.8 million in the previous quarter.

Full year adjusted EBITDA was \$186.5 million, up 49% from \$125.3 million in the prior year, with adjusted EBITDA margins up by approximately 550 basis points as we continue to mix towards higher-margin revenue streams and drive operational efficiencies across the business. We ended the quarter with cash, cash equivalents and investments of \$433 million, down from \$569 million at the end of the previous quarter, driven by the retirement of \$191 million of 2025 convertible notes that matured in November as well as the repurchase of \$5 million of our stock in the open market.

We generated cash flow from operations of \$64 million in the fourth quarter, driven by new bookings, larger annual invoices and seasonal strength in working capital.

We also generated free cash flow of \$57 million in the quarter, resulting in free cash flow for the year of \$173 million, representing a 93% free cash flow conversion rate as a percentage of adjusted EBITDA.

This better-than-expected conversion rate was attributable to increased focus on profitability across the business, streamlined operational processes and effective working capital management.

Let me finish by sharing our first quarter and full year 2026 guidance. We forecast first quarter revenue in the range of \$212.5 million to \$216.5 million and full year revenue in the range of \$871 million to \$878 million, representing year-over-year growth of approximately 10% for the full year.

We previously communicated the expectation for full year 2026 subscription revenue growth of approximately 13.5%, and we are now raising that outlook to at least 14%. We forecast first quarter adjusted EBITDA in the range of \$52.5 million to \$55.5 million, and

full year 2026 adjusted EBITDA in the range of \$225 million to \$230 million, representing approximately 26% of revenue for the full year.

We are now in the final year of the 3-year framework we introduced in February of 2024, and we have meaningfully outperformed those initial goals. Those targets called for average subscription revenue growth of approximately 14%, average annual adjusted EBITDA margin expansion of 300 to 400 basis points and free cash flow conversion greater than 70% of adjusted EBITDA.

For that 3-year period, we are now expecting average subscription revenue growth of approximately 16%, average annual adjusted EBITDA margin expansion of at least 450 basis points and free cash flow conversion continuing to exceed 90%.

This represents meaningful outperformance relative to our initial 3-year framework and reflect the consistency of our execution, the strength of our business model and the discipline of our team.

As we enter the final year of our previous framework, we are taking the opportunity to provide additional clarity on how we think about the business beyond 2026. This includes both our initial expectations for 2027 and a longer-term financial framework that reflects the operating leverage of our business model.

Starting with initial expectations for full year 2027, we are targeting annual subscription revenue growth between 12.5% and 13%, and adjusted EBITDA margin expansion between 150 and 200 basis points.

We are also introducing longer-term profitability targets of where we expect the business to operate over approximately the next 5 years.

By the end of 2030, we believe the business will achieve non-GAAP gross margins of at least 65% and adjusted EBITDA margins of at least 35%. These are not near-term objectives, nor will we necessarily have a linear progression over this time period. But these targets reflect our longer-term expectations as operating leverage continues to build in the business. In summary, we delivered strong results in 2025, finishing the year ahead of expectations and above the high end of our guidance. while also driving meaningful expansion and profitability and cash flow conversion.

As we enter 2026, we're raising our subscription revenue outlook for the year and providing a clear view into how we believe the business can perform as it scales. We intend to continue to execute on our profitable growth strategy by balancing investments to sustain durable subscription revenue growth and drive operating leverage over time, while prioritizing effective capital allocation.

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

Matthew P. Flake

President, CEO & Chairman of the Board

Thanks, Jonathan. I'll close by stepping back and putting the year into perspective. 2025 was a defining year for Q2. We've delivered strong execution across bookings, revenue and profitability. We're seeing demand across our major product lines, digital banking, relationship pricing and risk and fraud.

And we're seeing that demand show up in larger deals with both new and existing customers, expansion continues to be a defining characteristic of our business, and our customers are choosing to deepen their partnerships with Q2 because our platform is delivering real value across their most critical priorities.

As we move into 2026, we do so with a strong pipeline, a clear strategy for profitable growth and a platform that we believe positions us at the center of the next phase of innovation and banking, whether it be deposit growth, fraud management or AI, we're confident in our ability to continue executing, investing thoughtfully and delivering value for our customers and our shareholders.

With that, operator, let's open the call up for questions.

Question and Answer

Operator

[Operator Instructions]

And our first question comes from Alex Sklar of Raymond James.

Alexander James Sklar

Raymond James & Associates, Inc., Research Division

Matt, first one for you. Just with some of the growing expectations around core modernization within your FI base over the next several years. Can you just talk about what you typically see in terms of demand for your own solutions when an FI decide to migrate its core to the cloud or switch core vendors.

How often does that create and is that bad for you? And any change in terms of what you're seeing there in the pipeline related to those opportunities?

Matthew P. Flake

President, CEO & Chairman of the Board

Yes. Thanks, Alex. Any time a bank or credit union decided to make a change to their technology, whether it's in the core area, in particular, it opens up an opportunity for us, and we are expecting to get some opportunities from that. I consider it found money. I haven't had -- I don't have it built into the numbers this year.

But I think we're well positioned to get a lot of at bats for those that happen. I don't know the timing on those. And there's some natural conversions that happen every year.

But as you know, there's some -- some of the core providers are forcing conversion. So it should create some opportunity. It's just hard to quantify it, but I like how we're positioned, and I think it should create opportunities for us.

Alexander James Sklar

Raymond James & Associates, Inc., Research Division

Great. And then, Jonathan, maybe one for you. I appreciate the early view into already giving a little bit of an above 2027 subscription growth outlook. Can you help us understand the right way to think about your underlying visibility into that subscription growth?

Is it just on the strength in the strong Q4 bookings, is anything embedded in terms of what you need to go get still in 2026? And maybe where could there still be areas of upside to that early outlook?

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. Thanks, Alex. We feel good about the early look into '27 and the range we provided. I think you should definitely look to the first half of '26 bookings execution is having an impact potentially on '27 that could drive upside to that.

But we feel good about what we're putting out there based on the strength of not just the fourth quarter, but all of 2025. When you look at the mix of deals in the year, especially in the back half, Matt talked about just how much we skew towards larger deals in the back half.

And because of the time to revenue on those larger deals, the full brunt of those that will hit revenue really give us visibility into 2027 from that perspective.

So we're very comfortable with the range we provided. And I would just look to -- once you get to the back half of 2016, the likelihood of it having a big impact in '27 is smaller. So it's really our first half bookings execution that could theoretically drive upside to that range.

Operator

And your next question comes from Ella Smith of JPMorgan.

Eleanor Osgoode Smith

JPMorgan Chase & Co, Research Division

So first for Matt, you cited very good traction with cross-sell in the quarter, particularly fraud tech. Can you please update us on the latest metrics as to how much room there is to still expand within your existing customer base for all the auxiliary products you sell outside digital banking.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. I can take that. I mean one of the ways I would quantify it is if you just look at our Tier 1 customer base. So every financial institution above \$5 billion, only 10% of them have all 3 of our retail, commercial and relationship pricing and fraud solutions.

If you look at just the fraud opportunity, it's a little tricky because we have so many fraud solutions that are in the hands of clients standalone, meaning they are just on fraud products, and we can use that opportunity to cross-sell into digital.

But if you look at the digital banking customer base and say, how much opportunity could we -- or sell fraud products into that base, we still think there's a huge opportunity, maybe to the tune of 25%, 30% penetrated in totality, but there is a significant penetration opportunity when you think about not just the Q2 set of products, but also the Innovation Studio partner ecosystem in the fraud tech space.

So it's very early days from our standpoint, when we think about the opportunity to monetize fraud products within the digital banking customer base.

Eleanor Osgoode Smith

JPMorgan Chase & Co, Research Division

Great. Very clear. And for a follow-up, given the strength of your free cash flow conversion, how do you weigh using your cash for share repurchases versus M&A versus anything else?

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. What I'd say there is the performance on the free cash flow generation side kind of gives us the flexibility to be thoughtful around what is the right answer at any point in time. You heard that in the fourth quarter, we started the repurchase activity associated with the authorization that we called out on the last earnings call.

And you can assume with where the share price has been that we've continued down that path throughout January and the first part of February here.

But that doesn't preclude us from the other capital allocation alternatives that are out there. Our cash balance, I think, gives us the freedom to still explore M&A actively.

But the other thing I'll point to is as you look at the operating leverage in the business implied in our '26 and '27 outlook, you can see less expansion than what we've shown in '23, '24 and '25 in the next 2 years.

And a big chunk of that is reinvesting into areas like R&D that are going to drive an elongated growth trajectory for the business. So -- we are very focused on balancing that idea of generating more free cash flow, but also reinvesting it prudently into the business to drive long-term growth.

Operator

Your next question comes from Terry Tillman of Truist.

Terrell Frederick Tillman

Truist Securities, Inc., Research Division

Congratulations on the fourth quarter, strong bookings finish. The first question is going to be double clicking and just digital banking, holistically. I'm curious, if we take a step back, where do you think we are in terms of baseball analogy on innings in terms of just dynamism and kind of replacement opportunities for retail, small business and then commercial. And then I had a follow-up for Jonathan.

Matthew P. Flake

President, CEO & Chairman of the Board

Yes, Terry, I think if you think about the vast majority of banks and credit unions are using legacy core processor systems for digital banking, which in some cases, are in desperate need of an upgrade.

And we just seem to operate at a pace different than they do. They're great companies. They'll be around for a long time. But the demand environment kind of tells you that we're differentiated in this for retail, small business and corporate with a single platform.

Jonathan talked about the expansion opportunities, which you have seen for the last probably 8 quarters, so whether it's an existing customer where we can go sell retail, small business, commercial or even relationship pricing or a net new customer, the customers -- our customers are doing very well.

If you look at it, the stocks are up, they're operating in this environment pretty well. They got through the '22, '23 period of time. And they are focused on what we've been talking about all time, deposit acquisition, retention and growth.

They're looking for operating efficiencies. They're looking for ways to generate revenue, which comes from commercial deposits largely. And I just think there is a significant amount of runway for us. And if I look at the pipeline, the ASPs, our win rates. It lays out really well for a great '26 and hopefully '27. So I don't know what inning that is, but just say the beginning of the fourth.

Terrell Frederick Tillman

Truist Securities, Inc., Research Division

I guess for Jonathan, risk and fraud, can you remind us again, I'm sure you have an aggressive pipeline for '26. But I'm just curious like how quickly is that to go win it and be able to implement it and start recognizing revenue. Is that a faster time to revenue-type product. And said another way, is that potentially kind of a meaningful swing factor if you do upside your sub revenue, it would become from like risk and fraud and those products go in faster.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Thanks, Terry. I mean I hate to say it really depends, but it does from the standpoint of are you selling it standalone to a customer, in which case we can typically see implementation timelines that are faster than traditional digital banking.

But if it's in the context of a digital banking net new, often it will follow the timeline of the go live on digital. For an existing customer that's already live on digital, though, that's where you can see faster time to revenue because if we're cross-selling a centric solution or an Innovation Studio partner on the fraud and risk side, that's where you can see much, much faster time to revenue outcome.

So it's a little bit of both. But like we -- in general, I would say that the timelines for going live on the fraud side are going to be faster outside of the very large net new deals that are associated with the digital banking implementation.

Operator

And your next question comes from Andrew Schmidt of KeyBanc.

Andrew Garth Schmidt

KeyBanc Capital Markets Inc., Research Division

Good results here. Wanted to start off just on the commercial side. Clearly, the solution has been resonating very well in market. No surprise since the commercial side has gotten more competitive with FIs. And I think you're hitting that pretty well. Maybe talk about just how demand has evolved for the last couple of years and the demand into '26 is trending on the commercial side?

And then maybe just an overarching question on just overall pipeline and composition would be helpful. I know you mentioned that in prepared remarks, but if you could drill down on that, that would be super helpful.

Matthew P. Flake

President, CEO & Chairman of the Board

Yes. The real driver for the demand was the change in rates and the access to deposits and the importance of deposits.

And as I've said many times, commercial deposits are the stickiest, the largest and the most profitable because they're able to charge for services around that, whether it's wires, ACH, information reporting, and so you're seeing a significant amount of demand for these

products so that they can go get those commercial accounts and the operating accounts on the customers that they have lines of credit with.

And so that demand environment as long as rates are going to be in the vicinity. I don't think we're ever going to get back, or not in my lifetime, back to the 0% rate or 1% rate. I think that demand is going to continue because that's the lifeblood of these businesses. They've got to have the deposits. And I feel very good about that opportunity for us as we move forward.

As far as the shape of the pipeline, I think it will be similar to last year. I think you'll see larger -- the larger deals kind of come through in the second half of the year.

We do have some nice deals in the first half. I think you'll see more out of PrecisionLender in the first half and more fraud than the first half just because of the momentum we have there. But we've got a really healthy digital banking pipeline, with some significant Tier 2s and Tier 3s and a couple of Tier 1s that are working for the first half.

I feel very good about the pipe for the first half. You're closer to it and so you can see it. And then the coverage ratios for the back half of the year are really good as well. So coming off a really strong third quarter and the second best quarter in the history of the company to feel that way, we feel really blessed.

Andrew Garth Schmidt
KeyBanc Capital Markets Inc., Research Division

Yes. No, it all sounds great. And then maybe you could just ask on the 2030 targets, the margin targets, understanding those are longer term in nature, and they could fluctuate between now and then. But maybe just talk about some of the assumptions that go into that.

Is there tech modernization in there? Is it just scale, cost optimization. Just if you could unpack that a little bit, that would be helpful.

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

Thanks, Andrew. It's really a combination of all the things you mentioned as well as the continued mix shift on the subscription side. So in 2025, full year '25 subscription revenue mix was 82%, as you get out to 2030, I'd expect that to continue to mix up into the mid-80s, if not higher.

So that's going to be a contributor from a cost of sales perspective, we see efficiency opportunities throughout those line items, and we're still optimizing from a global offshoring perspective. We're later stage in that one, but there's still some execution there that will drive opportunity over the next 5 years.

And then as we think about the OpEx opportunities sales and marketing and G&A are going to be the biggest areas of leverage as you look out to 2030. And R&D, while maybe not as much, you can see that in the '26 and '27 numbers specifically. By the time you get out to 2030, we expect there will be efficiency that's driven from that line item as well.

Operator

And your next question comes from Matt VanVliet of Cantor Fitzgerald.

Matthew David VanVliet
Cantor Fitzgerald & Co., Research Division

I guess as we look at AI, you mentioned a number of opportunities. So one, obviously, the efficiencies internally are seemingly already showing up. But maybe as we think about innovation studio and some of the other monetization efforts, how are you guys thinking about that between having very discrete sort of charges to use that?

How does that mix in and then what is the sort of counter to that of just saying, here's more value of the platform that should help us win customers and maybe more slowly monetizing it over time, understanding that maybe some of these processes are the most compute-intensive like we might see in other areas.

Matthew P. Flake
President, CEO & Chairman of the Board

Yes, Matt, the beauty of the Innovation Studio is we have a revenue-sharing model already in place. And we firmly believe we're the gateway for these AI products and features that could be coming to us and our customers are asking us to help with AI and how are we going to work together to do that.

And then what's interesting is a lot of the companies that go to these banks directly, the banks are steering them to us. And so it just reiterates the point that we think there's an opportunity to partner with people, to build our own products. And we are well down the path of building AI products using AI to help us become more efficient, helping our customers use AI products to become more efficient.

So it really sets up well for us with the overhang on our customers in a highly regulated environment, security, compliance, and the integrations and the trust we built with these customers over the last 20-plus years, puts us in a great position to capitalize on it, and we are very excited about it.

Matthew David VanVliet
Cantor Fitzgerald & Co., Research Division

And then I guess, as we look towards the framework you outlined, so maybe this is for Jonathan, but I guess, how much of the yet to be released sort of in-process R&D components? Are you including in some of that or should we think about some of the moving pieces, potentially adding additional top line growth that could materialize and maybe give you some upside or at least some cushion in the targets you laid out?

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

Yes. I would say they would be upside to the targets. I think we have conviction in this model and this framework in the paradigm we're operating in today. Not to say that from an efficiency standpoint, we're not already seeing and expect to see more benefits throughout -- through that 2030 time period. But if you're talking about specific monetization opportunities and the benefits from what Matt talked about, that would be upside to this framework.

Operator

And your next question comes from Parker Lane of Stifel.

Matthew James Kikkert
Stifel, Nicolaus & Company, Incorporated, Research Division

This is Matthew Kikkert on for Parker. To start, what is your view on kind of banking M&A landscape right now? And what impact does that have on your 2026 guidance compared to historical trends?

Matthew P. Flake
President, CEO & Chairman of the Board

Well, clearly, it's picking up. And as we said in the prepared remarks and we've said historically, we -- last year, we were at 93% of the time, we're the surviving entity. We tend to have customers that are inclined to acquire other banks to grow.

If you look at the number of customers we have over [5 billion], I think it's up to [200 billion] now. 50% the top 100. So we feel very well positioned in the M&A environment. And Jonathan, do you want to talk about it? And I think it's going to continue, obviously, and Jonathan, do you want to talk about the -- in the plan?

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

Yes. And what we know in terms of deals that have been announced and that where we have either booked a contract with regards to an M&A deal that's now closed or we have visibility into it, that would be captured. What we don't do is model like hypothetical M&A that may be coming or that we don't know about as some sort of plug into the forecast where, again, in most of these cases, that would lead to upside. And to the extent in the 5% to 7% of time, historically, it has not gone in our favor.

Typically, that takes some time to roll off, including potentially being mitigated by buyout. So we feel good about it. I think we have a lot of conviction in the '26 guide we're giving and most of the time, we would expect there to be upside from the M&A outcome. And if there's anything that happened the other way, we think we could absorb it within the context of that framework anyway.

Matthew James Kikkert
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then my second question is on internal AI efficiencies. I'm just wondering kind of what you're working on there? And how does that play into the EBITDA expansion target for 2026?

Matthew P. Flake

President, CEO & Chairman of the Board

Yes. As we talked about in the November call, we structured the business in a way to where we could maximize our engineering team working with our hosting team, our support team and our delivery teams to make sure we're using all the AI tools that are available.

Our go-to-market team is using AI tools, HR, finance, accounting, every single department of this company are using AI tools to drive efficiencies in their business. And how we layered in, we're going to be cautious with that because there's an expense to get all these tools and then it takes a little time to do that. But we're seeing some early signs of some real positive outcomes.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. What I would just add to that is, as you think about the '26 and '27 margin expansion commentary we provided and the ranges we gave we have conviction in those regardless of AI efficiency, and we do already see some early returns that are coming from internal use cases with AI. As you look out beyond 2027 and the path to that 35% target, I think that's where you can assume that AI efficiencies will have a meaningful impact.

But again, we feel confident in the ability to hit those numbers no matter how it plays out, but the early returns are strong enough that we certainly think by the third through fifth year of that framework, we're going to be seeing some meaningful leverage when it comes to AI across this company.

Operator

Your next question comes from James Faucette of Morgan Stanley.

[Operator Instructions]

Michael Nicholas Infante

Morgan Stanley, Research Division

It's Mike Infante. Any interesting trends in the actual tech spend of your customers and how they're reallocating dollars right now? In particular, I'm curious if you're seeing vendor consolidation to fund AI-related spend? And if that would represent a sustained tailwind to more platform consolidation RFPs that would combine digital with fraud, commercial, et cetera?

Matthew P. Flake

President, CEO & Chairman of the Board

Yes. I haven't seen it for AI purposes, but if you go back to '22 and '23, when rates went up so rapidly, you began to see vendor consolidation occur and it was -- the vendor consolidation was the back office providers and then front office providers. And we were obviously a net beneficiary of that if you look at bookings from the back half of '23 through '25. So I think that, that is where they started to drive the efficiencies to be able to spend more on digital experiences as opposed to kind of run the bank stuff.

We consider ourselves change the bank. And I think that trend will continue. And I think AI will be a tailwind to that as well that we're certainly in a position to capitalize on in talking with our customers.

Michael Nicholas Infante

Morgan Stanley, Research Division

That's helpful, Matt. And then maybe just on your agentic strategy broadly, like what's the push and pull right now from customers? Do they want you to -- do they want agents to sort of operate within a Q2 governed framework? And if so, do you think that could represent a tailwind to Innovation Studio just given its ability to sort of stitch together a variety of different point solutions.

Matthew P. Flake

President, CEO & Chairman of the Board

Yes. I think you have to remember, these are probably the most conservative group of business people in the country. And compliance is where they start and the regulatory environment is obviously something that -- is something that they start with that when they start looking at technology solutions.

So as I said earlier, all of our customers that we've talked with are coming to us and asking about how they should think about it. We're still teaching them about agentic AI and the opportunities and how we can get ahead of other people by building these solutions with our customers and talking to them about how it works.

And so that's why one of the reasons we talked about the system of context in that we have data that we think is really important, transaction flows, user behavior signals, integrations, real-time decision-making and allows you to not only know what they just did, but what they may do next, which is really where agentic comes into play.

So we think there's a lot of opportunity there, and we're working with our customers. But we've tried some things and some have worked and some haven't, but we're definitely -- we think that's going to be a pretty big tailwind for us as we get deeper with our customers.

Operator

Your next question comes from Charles Nabhan of Stephens.

Charles Joseph Nabhan
Stephens Inc., Research Division

I know it's becoming a smaller piece of the revenue pie, but can you talk about the outlook for non-subscription revenue and given that it's dilutive to margins, the degree to which any recovery is assumed in the '27 or longer-term framework?

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

Yes. So from a nonsubscription standpoint, sort of commented on this briefly in the prepared remarks, despite the strength we saw in 2025, in totality, we expect the combined services and transactional line items to decline in both years. And as far as we can see for the foreseeable future in the mid-single-digit range.

So you're right, those are margin dilutive line items, but we also don't expect a recovery based on what we see. And the big drivers to that are really continued weakness when it comes to discretionary spending on services engagements as well as legacy bill pay.

Those continue to be the drivers. And the upswing we saw in 2025 was really driven by a significant pickup from a really low base in M&A core conversions. And while we expect that to remain high, we don't expect that to grow off of the elevated levels of '25.

So you really don't see the opportunity to grow those line items to the extent we did in '25 as we look forward. So did that answer your question, Chuck. In general, we expect the profile to be mid-single-digit degradation in those line items and they are margin dilutive, but they're also shrinking in scale.

Charles Joseph Nabhan
Stephens Inc., Research Division

Got it. That's super helpful. And as a follow-up, and apologies if I missed this, but could you give us an update on the Innovation Studio from the standpoint of your monetization effort, how big it could become potentially as a revenue contributor as well as the role it plays in your overall AI initiatives.

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

Yes. I mean it's become a core part of what we are calling our platform from a digital banking perspective. When you think about the revenue model of that business, where we're getting net revenue from our clients and so the margin profile is very high.

The adoption of both our FIs and their adoption of these products is increasing. 2025 was a very big year in uptick on all of our internal KPI indicators.

And then to your point, in an AI-first world, we just see that our -- the value of our data and our distribution are something that's the best technologies, whether it's existing products that develop an AI-driven value proposition that modernizes their offering or a new AI-first product that wants to enter financial services that -- as Matt said, we are the gateway to do it.

And without the scale and security and maturity of the Innovation Studio, I don't think we'd be in nearly as good a position to capitalize on this opportunity. So we feel strategically, this is a huge opportunity for this business and continue to see it as a revenue

contributor, a margin contributor and a key element of both winning net new deals and retaining our existing customers, and being that path to capturing AI opportunities in financial services that we don't necessarily build.

Operator

Your next question comes from Matthew Inglis of RBC Capital Markets.

Matthew Inglis

This is Matthew Inglis on for Dan Perlin at RBC. I was wondering if you guys could update us on the cadence and magnitude of the cost savings in 2026 as you exit data centers as part of the completion of the cloud migration.

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes, definitely. So you sort of see it in our framework when you look at our 2026 guide. We have included in that framework for '26 gross margin expectation of north of 60%. And so when you look at it, whether you look at the fourth quarter of '25 or the full year of 2025, we are expecting a significant step-up in that gross margin metric.

And then as you think about now sitting here in mid-February, complete from a cloud migration standpoint, when it comes to customer migrations, and fully complete certainly in all facets as we exit Q1, if not sooner, we're in a great position to capitalize from seeing all of those data center-related costs roll off the P&L.

And so that's really the biggest driver of that step-up in the 2026 gross margin guidance that you're seeing. And then as you see that evolve to the target we put out for 2030, it's some of the levers I talked about earlier.

And one of them includes once we've had a chance to operate in the cloud environment, there are opportunities to optimize elasticity and cost for the new environment.

And it probably just takes us a little bit of time in the cloud in the AWS to understand how to do that with conviction and safety for our customers. But as we get into '27 and beyond, we think there's another step function opportunity from a gross margin perspective within that cloud spend bucket.

Operator

Your next question comes from Cris Kennedy of William Blair.

Cristopher David Kennedy

William Blair & Company L.L.C., Research Division

There's been a lot of changes in the regulatory environment. Can you just give us an update on Helix and kind of the prospects for that business going forward?

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. I mean I think from a regulatory perspective, I wouldn't say there's anything in the last 3 months that has changed our outlook for the Helix business. I think we are continuing to see opportunities. We talked about 1 in the quarter, a very large credit union that chose Helix for 1 of their strategic product offerings.

And we continue to see banks and credit unions exploring what I'll call -- what we call fabric or core modernization opportunities that are really about bringing together a retail strategy that makes more economic sense relative to the legacy infrastructure that's out there for a certain cohort of their customers.

That continues to be the big opportunity for Helix going forward from an existing customer perspective, we've executed well in renewing our large number of -- a large existing client base and especially the ones that drive the majority of the revenue in that business.

And then we feel good about the way that those businesses are investing and making their programs more profitable, and we're seeing the benefit of that.

So no real change. Clearly not the demand environment that we saw back in '20 through '22, but nothing in the last 3 months that's pivoted our outlook on the Helix business at large.

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Cristopher David Kennedy

William Blair & Company L.L.C., Research Division

Great. And then just we noticed the 50 SMB customers on the digital banking platform. Can you just talk about kind of the opportunity to expand that metric?

Jonathan A. Price

CFO and Executive VP of Strategy & Emerging Businesses

Yes. I mean when we think about SMB and commercial still and you think about the total of about 500 digital banking customers, that's a huge area of opportunity. I mean we think that SMB is an area of focus for a lot of these institutions and in some ways, a gateway to larger commercial.

So we feel really good about that. And as Matt talked about, the demand for commercial is extraordinarily high, and we think our positioning and our differentiation on the commercial side is helping us win a lot in the market. So if there's anything to add?

Matthew P. Flake

President, CEO & Chairman of the Board

Yes, I mean, the banks can -- as the bigger banks get bigger, they kind of abandon businesses that are \$25 million, \$50 million in revenue, and these customers need to expand their offering to go get a larger customer for the operating accounts, and that drives more revenue for us through utilization. So it's another tailwind for us.

Operator

There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.

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