S&P Global
Market Intelligence

Q2 Holdings, Inc. NYSE:QTWO

FQ2 2026 Earnings Call Transcripts

Wednesday, July 29, 2026 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2026-			-FQ2 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.69	NA	NA	0.67	2.77	NA
Revenue (mm)	214.43	NA	NA	217.00	879.78	NA

Currency: USD
Consensus as of Jul-29-2026 10:34 PM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2025	0.53	0.52	1 (1.89 %)
FQ3 2025	0.56	0.64	2 14.29 %
FQ4 2025	0.61	0.68	3 11.48 %
FQ1 2026	0.69	0.63	4 (8.70 %)

Table of Contents

Call Participants

EXECUTIVES

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

Josh Yankovich
Investor Contact

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

ANALYSTS

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Andrew Garth Schmidt
KeyBanc Capital Markets Inc., Research Division

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

Daniel Rock Perlin
RBC Capital Markets, Research Division

Eleanor Osgoode Smith
JPMorgan Chase & Co, Research Division

Jeffrey Parker Lane
Stifel, Nicolaus & Company, Incorporated, Research Division

Matthew David VanVliet
Cantor Fitzgerald & Co., Research Division

Michael Nicholas Infante
Morgan Stanley, Research Division

Terrell Frederick Tillman
Truist Securities, Inc., Research Division

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 Second Quarter 2026 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 today. With me on the call 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 quarterly report on Form 10-Q for the second quarter of 2026, 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 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
President, CEO & Chairman of the Board

Thanks, Josh, and good afternoon, everyone. Thank you for joining us today. I'll start by sharing our second quarter results and highlights from across the business. I'll then hand the call over to Jonathan to discuss our financial results in more detail and provide our updated outlook for the remainder of the year.

We delivered another strong quarter of execution with financial results that reflect the continued strength of our subscription model, healthy demand for our mission-critical solutions and the operating leverage we continue to build into the business.

In the second quarter, we generated revenue of $219.8 million, representing 13% year-over-year growth. We also delivered adjusted EBITDA of $62.8 million or 28.6% of revenue and generated free cash flow of $51 million. Overall, we're pleased with the performance of the business through the first half of the year. We continue to see strong engagement from customers and prospects.

We're executing well across our major product lines, and we believe our platform strategy is becoming even more relevant as financial institutions look to modernize their technology, protect their customers and begin to leverage Q2 to adopt AI in practical and responsible ways.

On the sales front, we had another strong bookings quarter, highlighted by 8 total Tier 1 and enterprise wins across the portfolio. The quality and breadth of these wins were encouraging.

We saw continued activity across digital banking, risk and fraud and relationship pricing. There were a few specific themes that played out in the quarter, which I'll highlight briefly.

First, we've talked about our land and expand model as a key part of our strategy because of the synergy and breadth of our product portfolio today, we have multiple avenues to land a new customer and then expand their relationship with Q2 over time.

In the second quarter, we signed a relationship pricing deal with a top 25 U.S. bank that provides a powerful demonstration of this dynamic. This customer first signed for our small business and commercial digital banking capabilities in 2023. Last year, they signed an expansion for our risk and fraud products to protect their commercial customers.

And in the second quarter, after attending our client conference, they signed another significant expansion for our relationship pricing capabilities. So in just 3 years, this bank has signed for three of our major product lines, illustrating the significant expansion potential that exists, especially with these larger enterprise customers.

We also view this particular deal as a strong example of the potential for synergy between commercial digital banking and the relationship pricing aspects of our solutions. Large sophisticated commercial banks are increasingly looking to price both sides of the commercial balance sheet in a more integrated way, helping them improve profitability across loans, deposits and fee-based products. And with our combined commercial capabilities, we believe we are uniquely equipped to help them compete for and retain commercial clients.

Beyond relationship pricing, we continue to see M&A drive meaningful momentum for us in the quarter, which is the second theme I'll highlight. We've talked for years about banking sector M&A as an opportunity for Q2.

Historically, that has often been because our customers have tended to be healthy growth-oriented institutions that are on the acquiring side of transactions. During the quarter, we had a meaningful Tier 1 win come from the opposite dynamic.

In this case, a $2 billion asset size Q2 customer was acquired by a $9 billion bank. And the combined entity made the decision to adopt Q2 across the entire bank in an open competitive evaluation that included the acquirer's incumbent solution and several others.

Wins like this are impactful because they demonstrate the competitive strength of our digital banking solutions. It also shows why we have tended to benefit from M&A amongst our customer base, whether our customer is the acquirer or the acquired institution.

Q2 is often in a strong position when the combined entity evaluates the technology needed to support the next phase of growth post acquisition. The M&A-related win and the relationship pricing expansion are just two highlights from another strong quarter of bookings performance.

We continue to benefit from a healthy balance of new customer activity and expansion with existing customers, and we're excited about the momentum we're carrying into the second half.

Another major highlight from the quarter was CONNECT 26, our annual customer conference. This was our biggest conference yet with record customer and prospect attendance.

As always, the conference gave us a valuable opportunity to spend time with customers, prospects and partners, hear directly about their priorities and share the next phase of our product strategy. The customer engagement at CONNECT was very strong, and one of the clearest themes we saw was the demand for practical AI.

Not AI as a broad technology concept, but AI applied to real workflows and use cases that can help financial institutions operate more efficiently, differentiate their digital experiences and better protect their customers.

As we discussed last quarter, we believe Q2 has several key differentiators in the current wave of AI innovation, data, distribution, incumbency and trust. Our platform sits in the flow of digital banking interactions, giving us deep banking specific context that is difficult to replicate.

We have an established customer and partner network that can consume AI capabilities as we deliver them. And importantly, our customers trust us to help them apply AI in a secure, compliant and operationally sound way.

At CONNECT, the customer conversations reinforce that our near-term AI product focus is aligned with the areas where financial institutions are actively looking for value. Improving efficiency for bankers, helping customers and partners build and personalize digital experiences faster and strengthening fraud protection. We showcased products tied directly to those priorities.

First, we formally announced Q2 Assistant from the keynote stage. Q2 Assistant is designed to embed AI directly into the digital banking experience, so bankers can use natural language to access information navigate workflows and ultimately operate more efficiently within the platform.

The reception from customers was very strong. In fact, Q2 Assistant was the most frequently demoed item in our exhibit hall, which tells us, customers are not just interested in AI in the abstract. They are looking for practical trusted use cases that can create value inside their institutions.

Second, we demoed Q2 Code from the keynote stage. Q2 Code is our AI-assisted development capability designed to help customers, partners and Q2 teams build on our platform faster using natural language and the power of our SDK.

The strategic point is that Q2 Code extends one of our core differentiators, the ability to tailor the platform via Q2 Innovation Studio. Customers already use Innovation Studio to extend their digital banking experience, integrate partner capabilities and tailor the platform to their needs.

Q2 Code is intended to make that process faster and accessible to more builders. They can add custom pages, change the look and feel of their experience, and build entirely new functionality through prompts.

In our demos, the customer reaction was clear. They see the potential to move from idea to execution faster and ultimately deeply personalize and differentiate their digital experience with less friction in the build process. We are still early in this journey, but these are not just conceptual demos.

Across our AI product set, these capabilities are either in production, moving through early adopter or being implemented with customers today, and we're encouraged that customers are already moving from interest to action signing on as early adopters in the week since CONNECT.

The third major AI product we covered was in the fraud arena, which is one of the areas where we see some of the clearest near-term applications for AI. As we've discussed in recent quarters, the cost and complexity of fraud continues to increase across financial institutions.

Today, fraud has become a continuous enterprise-wide challenge that spans retail, small business and commercial banking, and it is driving increasing levels of attention and investment from our customers. We believe this is a large and growing opportunity for us.

As fraud grows more complex and the stakes for financial institutions rise, our view is that financial institutions will look for a platform that sits at the center of the digital banking experience with the data, the distribution and the trust to act in real time.

That is precisely where Q2 sits, and it is why we believe fraud is one of the most compelling growth opportunities in our portfolio. At CONNECT, we shared our latest fraud strategy and product developments, including our work around account takeover.

I want to highlight this area because it demonstrates why we believe Q2 is well positioned to help financial institutions address the growing fraud challenge. Because our digital banking platform sits inside the flow of activity, we have the visibility in the behavioral signals and user interactions as they happen.

Our new account takeover product uses AI to continuously monitor those signals and interactions identify signs of compromise and intervene in real time.

The customer response was extremely positive. Today, we already have had double-digit customers sign up for the new account takeover product. And we're encouraged by the traction this product is already getting with customers.

More broadly, we believe fraud will remain one of the most important investment priorities for financial institutions. The threat environment and vendor landscape are evolving quickly, and customers are looking for trusted partners who can help them simplify their technology while improving protection.

We believe Q2 can play that role because of the breadth of our broad solutions, our innovation studio ecosystem and the central position our platform holds in the digital banking experience. Stepping back from the individual product areas, the overall customer sentiment at CONNECT was very positive.

There was clear excitement around AI, and we saw customers move from asking whether AI matters to asking how they can adopt it responsibly and where it can create the most value. That is an important shift.

At the same time, our customers were very clear that their traditional priorities remain front and center. They need to grow and retain deposits. They need to protect against fraud, they need to drive engagement, they need to operate more efficiently and they need technology partners who can help them do all of that in a secure, scalable and compliant way.

That is why we feel good about our position, the areas where customers are investing, digital banking, fraud, commercial growth, platform extensibility and practical AI are all areas where Q2 has built meaningful capability and differentiation.

When you combine our strong second quarter execution with the quality of our bookings activity and the customer engagement we saw at CONNECT, we feel good about our momentum as we enter the second half of the year.

Our pipeline remains healthy, including opportunities in larger enterprise and Tier 1 accounts, and we continue to see solid demand across digital banking relationship pricing and risk in fraud. We're pleased with where we stand against our financial expectations for the year, and Jonathan will discuss our annual guidance for 2026 in more detail.

With that, I'll hand the call over to Jonathan.

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

Thanks, Matt. We are pleased to report another quarter of strong financial performance with second quarter results above the high end of our guidance on both revenue and adjusted EBITDA. We also delivered record results across gross margin and adjusted EBITDA, and we retired our last tranche of convertible notes in June.

Let me start by discussing our financial results in more detail, and I'll finish with our updated third quarter and full year 2026 guidance. Total revenue for the second quarter was $219.8 million, an increase of 13% year-over-year and 2% sequentially.

Our revenue growth was driven by subscription-based revenues, which grew 15% year-over-year and 2% sequentially and ended the quarter at 83% of total revenue. The year-over-year in sequential revenue growth was primarily driven by a combination of new customer go-lives and expansion with existing customers.

Total non-subscription revenues were roughly flat year-over-year as growth in transactional revenue was largely offset by ongoing pressure in more discretionary professional services offerings.

Consistent with our outlook at the beginning of the year, we continue to expect ongoing pressure in our discretionary services revenue, and this is contemplated in the updated guidance I will walk through shortly.

Total annualized recurring revenue or total ARR grew to $971 million, up 13% year-over-year from $861 million at the end of the second quarter of 2025 and up 3% sequentially from $945 million at the end of the first quarter.

Our subscription ARR grew to $826 million, up 15% from $716 million in the prior year period, with growth benefiting in part from a favorable comparison to the second quarter of 2025.

Our year-over-year subscription ARR growth was largely driven by bookings from new customer wins as well as expansion with existing customers. Our total ARR growth remains below subscription ARR growth, driven by the trends we previously discussed related to non-subscription-based revenue.

Our ending backlog of $2.8 billion increased by $22 million sequentially or 1% and increased $404 million year-over-year, representing 17% growth. The year-over-year and sequential increases were driven by booking success across new expansion and renewal activity.

Non-GAAP gross margin was 62.3% for the second quarter, up approximately 480 basis points from 57.5% in the prior year period and up approximately 20 basis points from 62.1% in the prior quarter. The year-over-year improvement continues to reflect the completion of our cloud migration earlier this year.

In addition, the year-over-year and sequential improvement in gross margin was driven by the continued shift in our revenue mix towards higher-margin subscription revenue.

Total non-GAAP operating expenses for the second quarter were $81.7 million or 37.2% of revenue compared to $74.5 million or 38.2% of revenue in the second quarter of 2025 and $81.7 million or 37.7% of revenue in the prior quarter. The year-over-year increase in operating expenses was driven primarily by higher R&D personnel costs to support our continued product and AI investment.

Sequentially, total operating expenses were essentially flat as higher sales and marketing costs from our annual client conference were offset by lower payroll taxes associated with equity vesting and bonus payments relative to the first quarter.

Total adjusted EBITDA was a record $62.8 million in the second quarter, up 37% from $45.8 million in the prior year period and up 5% from $60 million in the prior quarter. Adjusted EBITDA margin was 28.6%, expanding approximately 510 basis points from 23.5% in the prior year quarter and up approximately 80 basis points from 27.7% compared to the first quarter of 2026.

The year-over-year and sequential improvement was driven by strong revenue growth and gross margin expansion, partially offset by higher operating expenses. We ended the quarter with cash, cash equivalents and investments of $106 million, down from $379 million at the end of the prior quarter. The decline in cash was driven by two significant uses of capital in the quarter.

The repayment of our 2026 convertible notes at maturity in the amount of $304 million and $23 million in share repurchases that occurred during the quarter. We generated cash flow from operations of $61 million in the second quarter, driven by profitability growth and solid working capital management and delivered $51 million of free cash flow.

With the retirement of our convertible notes, we ended the quarter debt-free. Combined with our continued strong free cash flow generation, we believe this gives us substantial balance sheet capacity and flexibility in how we allocate capital going forward.

I also want to provide an update on our share repurchase program. As of the end of the second quarter, we had repurchased approximately $125 million of our stock under our existing $150 million authorization announced in November 2025, with approximately $25 million remaining under the program.

Today, I am pleased to announce that our Board of Directors has approved up to an additional $350 million of share repurchases, which brings our total available repurchase capacity to approximately $375 million. This authorization reflects our confidence in the long-term value of our business and our commitment to allocating capital to deliver shareholder value.

We remain focused on maintaining a healthy balance sheet and preserving flexibility to support organic investment, inorganic opportunities as they arise and a patient and disciplined approach to share repurchases.

Let me finish by sharing our third quarter and updated full year 2026 guidance. We forecast third quarter revenue in the range of $218.5 million to $222.5 million and full year 2026 revenue in the range of $881 million to $886 million, representing year-over-year growth of approximately 11%.

We are also raising our subscription revenue growth expectation for full year 2026 to approximately 14.5%, up from our previous expectation of 14%, reflecting the strength of our year-to-date bookings and first half subscription revenue performance.

We forecast third quarter adjusted EBITDA in the range of $58.5 million to $61.5 million and full year 2026 adjusted EBITDA in the range of $244 million to $248 million, representing approximately 28% of revenue.

In summary, we delivered another record quarter of revenue and adjusted EBITDA, with both finishing above the high end of our guidance. This performance, coupled with our outlook for the remainder of the year, has given us the confidence to raise our full year guidance on both revenue and adjusted EBITDA for 2026.

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 and opportunistic capital allocation from a position of financial strength.

We believe that our results to date illustrate our progress and potential as we continue to evolve our business and drive shareholder value. 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. To wrap up, we're pleased with our second quarter results and the momentum we've built through the first half of the year. We delivered strong financial performance, continue to execute across our major product lines and saw healthy demand from both new and existing customers.

We believe our bookings performance in the quarter, including 8 total Tier 1 enterprise wins, reinforces the value of our platform and the breadth of opportunity we have across digital banking, relationship pricing and fraud.

CONNECT 26 also gave us a clear view into what our customers are prioritizing. They are focused on growing and retaining deposits, protecting their customers from fraud, operating more efficiently and investing in AI in practical, secure and compliant ways. Those priorities align directly with the areas where we have and continue to build meaningful capabilities and differentiation.

As we enter the second half of the year, our pipeline remains healthy, customer engagement remains strong, and we feel good about our ability to continue executing against our strategy.
With that, operator, we're ready to open the call for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Alex Sklar with Raymond James.

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Matt, maybe first one for you. As you bring more agentic solutions to market, particularly on the fraud side, and you talked about your core digital banking customers seeing the road map with areas like Q2 Code and Assistant, can you talk about how that's catalyzed any change in those core digital banking cross-sell opportunities between commercial and consumer or just win rates broadly?

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

Yes. Thanks, Alex. As I talked about it, when we talked to the customers at CONNECT, what was interesting was how they're leaning on us and looking to us to provide AI solutions. And so as the trusted partner of theirs, it is something that is creating opportunities.

We talked about the lines that formed around our Code, Assistant and fraud product for AI, which Assistant actually had the most attendance at the booth to see it. So what's happening is it drives confidence in our ability to deliver the technology, which helps with renewals, helps with extensions, helps with cross-selling other products.

And then on top of that, these products are hitting right where our customers want it. They want to protect deposits. They want to make their bankers more productive and then ultimately personalize these experiences for different initiatives that they have for whether it's commercial or retail customers.

So not ready to roll out the financial gain from these products, but the energy and the excitement around it is going to add a lot to cross-selling with existing customers. And I think it's also going to help us win a lot of net new deals because there's not a lot of vendors in the space that are bringing real AI solutions that solve those problems I talked about to the table.

So it's really exciting, and it's exciting to see the folks that are working on these products be rewarded with so much interest and engagement and to have these products in early adopter phase is exciting.

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

All right. Great, Matt. Well, that's more to look out for there. Jonathan, maybe a follow-up for you. You completed the cloud migration earlier this year. I know you've talked about kind of a multiyear optimization opportunity, but now with kind of 6 months under your belt. Maybe just update us on what you see as far as the subscription gross margin opportunity over the next couple of years?

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

Yes. Thanks, Alex. Yes, look, I mean, we're continuing to operate in this new environment, and we're pleased with the progress we've made to date and learning and understanding how to operate. I won't say optimal yet, but certainly more effectively than at the beginning.

And when I think about the road map for subscription gross margins obviously, from a total revenue perspective, we continue to expect the mix to increase towards subscription. So from a total gross margin perspective, that's definitely going to have an upward pressure on it in terms of the next few years.

But then there are so many other initiatives in place, not just cloud optimization, but as we think about the future of AI and we think about efficiencies around the organization to continue to work on achieving our long-term gross margin goal that we put out there at the beginning of this year.

So we feel good about the direction we're going. Obviously, this year was the big step function that we talked about leading into 2026. And so now we just got to keep executing against these other initiatives. But so far, so good in terms of how we're operating post cloud migration.

Operator

And your next question comes from the line of Andrew Schmidt with KeyBanc.

Andrew Garth Schmidt
KeyBanc Capital Markets Inc., Research Division

Good results. I wanted to just ask a question on the environment. A big question we had heading into earnings was just on sort of budget shifts and priority distraction and things like that. Obviously, look, it looks like you guys demand, if anything, is strengthening.

So it doesn't seem like you've seen that. But maybe talk a little bit about prioritization when it comes to spend. And whether there have been any budget shifts that you're picking up or sort of distractions when it comes to sort of AI implementation, things like that.

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

Yes, Andrew. I mean, the AI stuff is interesting to talk about with the prospective -- the prospects that are out there and the customers. But as I said in the script, at the conference, they want more commercial functionality, they want -- it could be bulk wires, it could be ERP integration. It could be in broader entitlement engine.

So there's -- that's what's driving their business. Now the commercial customers, getting those deposits, the fees they can generate off of those, and that's driving a lot of the demand for us.

Also, fraud is clearly a hot topic for them, and it's prevalent everywhere, whether it's in person, social fraud that's occurring when they're using people to manipulate it or actually transactions where somebody does account takeover.

So those are big topics. Clearly, relationship pricing, pricing these relationships is more complicated when rates are where they are and the different dynamics that are out there, relationship pricing was the bell of the ball this quarter. And then innovation studio being able to bring a lot of the new innovation that's coming from start-ups that have features or products are a big part of this.

So there's just the technology spend, it feels like it's going from leaving the back office general ledger kind of run the bank stuff to change the bank, and that's -- we're at the center of that, and that's what the opportunity has been for us, and that's why we continue to see this demand environment that we've seen and we continue to do well in it.

Andrew Garth Schmidt
KeyBanc Capital Markets Inc., Research Division

That makes sense. That's very encouraging. Appreciate that. The other encouraging thing that I picked up was just the sort of the pent-up demand around some of the AI products, particularly Q2 Assist and et cetera.

Maybe just help us EA timing, time to revenue, those sorts of things. Obviously, look, you're right. I mean, the core solutions are what's key, but obviously, these are important to sort of potential 2027 and 2028 beyond revenue contribution. So maybe just anything on sort of GA time to revenue and then pipeline and AI SKUs more broadly would be great.

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

All right. Well, so on the EA side, I think we'll be in general availability for those products in the fourth quarter. And the number and all that -- the revenue is going to come through, we would like to get another quarter before -- quarter or 2 before we start sharing how that's going to flow through the P&L. But as we talked about, we have double-digit people in EAs right now for the fraud product and single digits on Code and Assistant. So that number should be growing.

We're going to be patient. You got to get it right early and then you can have -- it will proliferate throughout the rest of the customers. But right now, there's lines forming. We've just got to get -- make sure we get it right and get the products up and doing what they say they're going to do.

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

And Andrew, on the time to revenue question, it's still early, we're experimenting in EA. And the good news of having double-digit customers already on the fraud side is we can start to see what delivery will look like at scale and make sure that our time to revenue assumptions make sense as you think about scaling this product and the others over the course of time.

So what I can say for certain now is the delivery time line and the conversion to revenue will be materially faster than, let's say, a digital banking implementation or a relationship pricing implementation more akin to some of our cross products, if not faster. But it's too early for us to lock in on an exact time to revenue guidance for you all here, but we hope to have a lot of clarity on that as we get through the rest of the year.

Operator

And your next question comes from the line of Ella Smith with JPMorgan.

Eleanor Osgoode Smith
JPMorgan Chase & Co, Research Division

The second quarter tends to be a seasonally softer quarter for net new subscription ARR yet this print looks like one of your stronger second quarters in recent history. Can you help us understand how much of the recent broad tech and relationship pricing wins already flowing through into ARR this quarter versus how many quarters away we are before those larger deals begin to show up in a more meaningful way?

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

Yes. Thanks, Ella. So a couple of things I'll point out on this. I mentioned this in the script, but strong first half on the subs ARR across the portfolio. But in particular, the second quarter did benefit from a favorable comp.

And so it's worth noting that if you back out some of the dynamics from Q2 of 2025, it's very similar to what Q1 would have looked like in terms of subs ARR growth from a year-over-year perspective. So Q1 and Q2, even though you saw some acceleration in Q2, and we're pleased about that. There was a benefit there given what Q2 of 2025 included last year.

When it comes to -- you're right, certainly, this quarter, we had strong success when it comes to the relationship pricing side of the business and some large bookings there. But I wouldn't necessarily call out those deals as being drivers any more so than all the wins and success we're having on the fraud side, on the digital banking side, obviously.

And then a lot of the cross activity continues to be strong, including with these new products. So we continue to feel good about the pipeline and the opportunity set going forward.

And again, I would look to the subs ARR, if you look at sort of where subs ARR year-over-year growth rates were in the middle of last year and then you think about our guide for the rest of this year, kind of tells you how we're looking at the second half when it comes to sub revenue growth. And then our job is to go and execute on bookings here the rest of the year and set ourselves up for a strong 2027.

Eleanor Osgoode Smith
JPMorgan Chase & Co, Research Division

Very clear. And for a follow-up, digital banking implementations have historically been lengthy and complex. Do you see a realistic path to using AI to meaningfully compress implementation time lines, taking weeks or even months off the process over the next few years? Or do you view the nature of the work as largely outside of the scope of what AI can address?

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

Yes, I would say that what we've seen, and we've talked about this before is that the customer sign up for an implementation that's either 9 or 12 months, depending on the size of the financial institution, could be 6. And that's the time line they have for that project.

What we're trying to do first is to make our teams more efficient. So if they carry three projects at a time, they can carry 4 or 5. And then ultimately, some of that work should translate to making it easier for the financial institution to implement it. It's still early.

We're widely using AI within our delivery teams to make them more efficient. We're seeing some gains, but it's going to take some more time around that.

But I think, ultimately, what we want to do is make the implementation more efficient for us, which should translate to making it easier for them in the long run and provide them with tools as well to make it easier for them as well. But that's going to take some time, but those are things that we are hard at work on.

Operator

Your next question comes from Terry Tillman with Truist.

Terrell Frederick Tillman
Truist Securities, Inc., Research Division

Yes. Can you hear me okay?

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

Loud and clear.

Terrell Frederick Tillman
Truist Securities, Inc., Research Division

Wonderful. Hey Matt, Jonathan and Josh, thanks for taking my question and follow-up as well. Matt, I think the quote was bell of the ball for relationship pricing. You did mention it a bunch, but you did also talk about risk and fraud a bunch to even in the press release. I'm just curious, and I get a lot of questions on this. I mean it's a very topical area. Anything more you can share in terms of -- or peel back the onion in terms of is the risk and fraud business something that's going to well outgrow your subscription overall revenue growth for some time.

I mean just kind of -- where do you think you are in terms of like innings in terms of monetizing the set of products there within your installed base? And then I had a follow-up.

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

Yes, Terry, maybe I'll take that one. I mean, certainly, when you take the fraud portfolio overall, it is growing at a premium to the total of the business.

And we think there's an opportunity for that to be true for years to come, especially when you think about the new fraud AI products that we just talked about at length with UAM.

Obviously, early days there, but I feel really good about that opportunity and the durability of it and the runway ahead. So from a fraud perspective, definitely think there's an accretive growth story there.

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

Also, Terry, I mean the fraudsters are unfortunately innovating as well. So this has got a long tail to it. We've got to continue to compete with the weapon and bring a shield and then they bring a new weapon and we've got to develop a new shield and it's kind of never-ending. So we're -- that's unfortunate, but that is what it is.

Terrell Frederick Tillman
Truist Securities, Inc., Research Division

Understood. Good point on that. And I guess the follow-up, Matt, you actually had -- I think it was in your prepared remarks, the synergies between commercial banking and relationship pricing. I know there is a lot more to relationship pricing than just like the loan books and just pricing on loans. You did call that out.

Are the synergies going to help just drive more relationship pricing and up-selling there? Or does it actually go the other way sometimes now with these synergies, and it's driving even more commercial banking transactions or up-selling?

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

Yes, it's a good question. I would -- I don't have all the data in front of me, but I would probably say that we're having more success selling relationship pricing to an existing commercial customer.

But I think they're beginning to see some opportunities because we're developing a deeper relationship with these customers on both sides, and they begin to trust us, understand the quality work that we do, that we're a client-first company.

And so those are creating more opportunities for us as financial institutions look to consolidate the number of vendors that they work with and the breadth of our product suite is something that our success -- our customer success team does a fantastic job of going out and making sure in strategic conversations with them that they understand all that we offer. So right now, I'd say it's more relationship pricing being sold to our commercial customers.

But -- we'd like to see more of those relationship pricing customers buy commercial. Now keep in mind, those are some of the -- I think we have 9 of the 14 largest banks in North America. So those will take some time, but we're working those angles as well.

Operator

Your next question comes from the line of Parker Lane with Stifel.

Jeffrey Parker Lane
Stifel, Nicolaus & Company, Incorporated, Research Division

Maybe sticking with risk and fraud. Obviously, the opportunity is huge here, and it's increasingly a big priority for your end markets. I was just wondering if you can comment on not just the opportunity growing, but your own competitiveness in this market.

If you compare win rates today to maybe a couple of years ago, those meaningfully improved as well? And if so, can you talk to some of the advantages of working with Q2 for the full suite, including risk and fraud versus multiple vendors there?

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

Yes, Parker, I don't have the win rates here, but I would think they would be up year-over-year for the last couple of years just because of the innovation and the progress we've made there.

The real value prop is when you have a single platform for retail, small business and corporate banking, you have all the data and then you have -- it's all in one place, and you can use that data to identify behaviors of people that -- how they act, how they react when they log in, who they pay, when they pay, how often they pay, the Fed district they pay. You can begin to use that data to your advantage to notice behaviors that fall outside of that.

So for us, it's -- the advantage is with a single platform, we're able to look at all that data comprehensively and provide solutions that stop the fraud based on not just did they enter the login ID and password, but do their behaviors match how they normally behave as opposed to fraudster.

So it's a huge advantage for us. And I think it's why you see us differentiating ourselves in the sales organization and the success organization lean on their front foot when we're selling fraud products because we're extremely confident in our capabilities.

Jeffrey Parker Lane
Stifel, Nicolaus & Company, Incorporated, Research Division

I appreciate that, Matt. And then Jonathan, one for you. Looking at the subscription revenue outlook, I think it ticked up 50 bps, '27 unchanged, seems like renewal cross-sell going very well. Maybe you could provide some color on what you're seeing from a net new perspective and how your confidence has built and the outlook for that piece of the business for the balance of '26 and in '27?

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

Yes. I mean, obviously, pleased with the execution year-to-date. And as we continue to look in the back half, the opportunity on net new -- independent of what looks great in terms of the opportunity, obviously, still on cross and renewals is very large and skews more to the Tier 1 and enterprise space like similar to the mix we saw last year. And so obviously, we got to go execute and have a big second half when it comes to those larger opportunities. But the net new in front of us is broad-based.

And it's, like I said, mixed heavily towards Tier 1 and enterprise, especially in the fourth quarter. So I feel good that we can continue if we execute to see that same dynamic on the net new side. And then you're right, especially as we get into 2027, we're going to have a lot of renewal and cross-sell opportunity, especially when you just think about these new products getting out of EA and into GA.

Especially by the beginning of 2027, we're going to be very focused on widely distributing these products and making sure we've got the value capture dynamics right and that we can deliver a value prop that allows for these products to be a meaningful contributor. So a big part of the story as we enter 2027 because that can be a huge contributor on the cross and expansion side.

Operator

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

Matthew David VanVliet
Cantor Fitzgerald & Co., Research Division

I guess following on a couple of these others. But as you look at the cross-sell pipeline ahead of you and Matt, you mentioned customer engagement continues to improve.

I guess if you had to stack rank where the opportunities are going ahead between expanding digital banking footprints, selling in some of this relationship pricing, but then also including things like Innovation Studio and some of these AI SKUs, where should we expect the most movement in terms of revenue growth over the next couple of years? And how might that dynamic change as you look out 5-plus years from here?

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

Well, 5 years, Matt. I don't know if I can do that. But I will say that it's a tough question to answer, which is probably a good question, but it's -- I was with a bank a couple of weeks ago that is running our commercial product and they're running a legacy product for retail.

And they just said, it's so frustrating for our commercial customers that use our retail platform because the commercial product is so much easier to use than the retail one. So we just need to switch and get it all on a single platform. There's opportunities like that all over in our customer base, especially in the upper end of Tier 1 and enterprise where we can go cross-sell those products.

Then you get into the fraud conversation, and you talked about what I said earlier about the power of the single platform in the fraud business. Relationship pricing, clearly, we're beginning to show a lot of success there. Innovation Studio is an endless opportunity with our customers with more than 200 partners in there.

So -- and then you add in our growing confidence in our AI capabilities and our AI products, there's a lot there. I would probably think that fraud, Innovation Studio and our AI products will certainly have a very long tail on them, as I said earlier.

But digital banking, we're adding new deals every quarter and some of them are buying one aspect of the product rather than they're buying commercial or retail. So there's just a lot of opportunity in the breadth of products that we're rolling out and our focus on customer experience is -- seems to be a big differentiator for us.

Matthew David VanVliet
Cantor Fitzgerald & Co., Research Division

All right. Very helpful. And then Jonathan, on the margin expansion, obviously, continues to be very strong here, but you highlighted OpEx continuing to grow. Obviously, the business is growing, and that's a requirement. But how should we think about the pace of OpEx growth over the next couple of years?

Are there any major sort of step function investments you feel like are needed? Or have you made a lot of those and a lot of the internal efficiencies you're going could see greater upside as growth continues and you just get sort of general leverage in the business?

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

Yes. I mean it's sort of all of the above. I mean, when you think about now what we've done year-to-date in '26 and with lifting our EBITDA guide for the rest of the year, you're seeing some pretty strong outperformance in terms of operating leverage both from the gross margin step up in the first half and ongoing OpEx leverage in the back half.

As you step forward beyond 2026, I would continue to lean on our long-term framework, which we still have conviction in. I mean, obviously, with the out performance this year, the bar is higher, but we feel good about the continued opportunities.

And obviously, there is a new, I'll just call it, line item in the P&L when it comes to AI-related infrastructure costs and token costs and the like. And when I think about the guidance we have for the rest of '26 and how we're thinking about planning for '27, we think we have a pretty good handle on that incremental spend relative to, obviously, a couple of years ago where it didn't exist.

So right now, it's -- we're just focused heads down executing and I think there continues to be a margin expansion story here. And obviously, the investments that you've talked about just now that we continue to make even here heavily in the third and fourth quarter of '26, we think are foundational to continuing the subscription growth trajectory that we're on.

So we're kind of trying to do both concurrently, and we feel good about that path. So I wouldn't add anything quantifiably beyond '26 other than what's already out there in terms of the long-term framework though.

Operator

Your next question comes from Dan Perlin with RBC Capital Markets.

Daniel Rock Perlin
RBC Capital Markets, Research Division

Great quarter, and congrats on repaying the convert. I'm sure that was a huge burden to get rid of. Jonathan, I actually wanted to follow up on exactly what you just said about token costs and understanding the dynamics about how that might play through over the course of the next 12, 18, maybe 24 months.

So like maybe can you just talk about how you've gotten comfortable with that, what the model looks like? I'm assuming it's token plus a margin to cost plus some sort of margin. But just anything you could provide there as we think about that part of the business ramping.

It feels like it's a sizable blind spot for a lot of clients also. But at the same time, you guys can maybe provide some scale to those clients, and therefore, it's a huge benefit to them. So just any of those dynamics would be helpful.

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

Yes, it sounds like you're talking about the cost structure of the external products. Most of what I was referring to in the prior answer was really about our cost internally when it comes to everything we're doing with AI, including building those external products.

In terms of how we're managing the cost structure, again, we're in EA on the 3 that we've announced and talked about, we think we have the proper guardrails in place in terms of caps and the ability to throttle token utilization embedded in the product, and we have a pricing scheme that will manage that.

Internally, we're very, very focused on model management and enablement of the organization to optimize for things like cashing and effective prompting, ultimately to just bend the curve of what we've seen throughout the latter part of '25 and through here July of '26, where the run rate is exponential in terms of the spend compared to just a year or 2 ago.

But now we're just figuring out the right mix of what model to use for what team, for what use case and that gives us confidence that we'll be able to be in the right place when it comes to the amount of spend in totality, both for internal usage and for building external product and for customers as they use those external products that will be in a healthy place. But especially on the external side, we're still very much testing this in the EA phase.

Daniel Rock Perlin
RBC Capital Markets, Research Division

Yes. No, that's really helpful. Just a follow-up. It's a little -- maybe a little bit more a one-off in a lot of ways. But there's just so much demand that you constantly have been talking about. So this isn't like the only quarter.

It's been several quarters now for some time. And I'm just wondering, like is the go-to-market motion for the team and like the sales force efficiency, are they running hot and to the point where you need more potentially out of them and there, therefore, you might need to expand?

Or are you comfortable with the team you got on the field to get you to kind of the growth goals that you've provided to the Street, but at the same time, if you gave a little bit more, would you be able to throttle up that revenue growth and maybe arc it up as we go into '27?

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

Dan, I think we've got good coverage ratios where they come in. It's -- and also remember, as I talked about earlier, it's not just digital banking, it's relationship pricing, fraud, innovation studio, the AI products. I feel good about the coverage we have right now on -- based on the number of deals we're doing in coverage. But if we see -- and as you said, this has been multiple quarters and we continue to deliver. But more sales reps doesn't always solve the problem. It shrinks commission rates, the amounts of wins.

And so I want to make sure as a salesperson myself, I want to make sure they can make as much money as they possibly can. But I don't see it as a situation where we're understaffed or under provisioned on the sales and go-to-market side, the success team and the sales team and the specialists and everybody involved do a great job.

I'm happy with what they're doing. They just got to keep it up and continue to make sure we keep winning.

Operator

And the next question is from Michael Infante with Morgan Stanley.

Michael Nicholas Infante
Morgan Stanley, Research Division

I wanted to piggyback on Parker's question earlier, mainly because if I carry forward that low 20s net new subs ARR range from the first half throughout the balance of the year. I think I get subs ARR sort of exiting '26 at or above [$870 million], which is around sub-12% growth.

So I guess the question is just given your reiteration of '27, like are you implicitly saying and/or expect that the back half from a net new perspective will accelerate? And how should we be thinking about the key drivers of that?

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

Well, I mean, when you look at the 2027 subs revenue growth guide of 12.5% to 13%, and you think about where we were in the first half of this year, which was a meaningful premium to that actually implies a modest decel in the back half when it comes to those metrics. But again, we feel good about -- you've got to remember, in the Q3 and Q4 period, A, we have tougher comps than we faced, especially in the second quarter, but even all of the first half. But we also expect a higher mix of these larger Tier 1 and enterprise deals.

So we definitely think we're going to -- assuming we execute on the bookings front, that we're going to be in a good position vis-a-vis that '27 goal. And obviously, all hands on deck to meet or exceed that. But when we think about sort of where we were from a subs ARR perspective, call it, this time a year ago, you can kind of see the leading indicator is telling you what that means for subs growth here in the back half of '26. And we'll see where subs ARR comes in based on our bookings, to you're right, the incremental subs dollars that we deliver here in the Q3 and Q4 time frame.

But the baseline is going up, the law of large numbers is present, and so we got to execute at a higher and higher level as time goes on. And so that's why we go back to all of these other products we have, the cross-sell opportunity, the continued execution on the net new front because we sort of have to see that success on all those dimensions to continue seeing this business grow at the levels that we've talked about and higher. So hopefully, that answers your question, Michael, but let me know if there's any follow-up there.

Michael Nicholas Infante
Morgan Stanley, Research Division

No, it does, and it makes sense in relation to the slope of net new last year in the back half as well. Just a second one, you sort of alluded to it being early in terms of you internally sort of figuring out some of these optimization dynamics on the actual compute cost.

But have you sort of learned anything incrementally as it relates to the gross margin profile of some of this AI-delivered functionality? Do you expect it will be broadly in line with the aggregate business?

Do you think it will potentially be accretive depending on what you're able to do internally from a model routing perspective in some of your internal sort of ML use cases? How are you sort of thinking about it early days?

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

Yes. I mean you framed up all of the work we're doing. It's a difficult question to answer today, not just because it's early adopter, but because it may vary wildly by product. And then the question then becomes what products scale up that ultimately become meaningful revenue contributors and then it may be accretive or dilutive to gross margin accordingly.

So it's a pretty difficult question to answer right now given where we are on all three of them. I can tell you when it comes to all the AI usage internally and managing that not only optimizing for where it falls on the P&L between cost of goods sold and primarily R&D, but OpEx otherwise.

We're doing a lot of work there, and then we're being thoughtful around how do we make sure that we're using the right model and the right level of spend for the right use case because in the early days, there wasn't a lot of management around that admittedly.

And so now as these numbers are getting larger and larger, making sure that we're being thoughtful about it and working with the teams around the ROI when we think about how much we spend to deliver a certain outcome, it's just a muscle we're building in real time, and that's going to be a big part of our journey here over the next for sure, 6 to 12 months.

Operator

And your next question comes from Cris Kennedy with William Blair.

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

Last quarter, you talked about a large fraud deal being larger than a digital bank customer win. Can you just provide a little bit more perspective on your relationship pricing business, the size of those types of contracts, especially as you have a lot of momentum today?

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

Yes. I mean, maybe use the example that was cited in the script when we think about that top 25 bank, that deal would look like a very large Tier 1 digital banking deal. I mean, obviously, that's a big institution.

So it's a good example of one that should naturally be large. But like Matt said earlier, when you have 9 of the top 15 banks for that product, it skews to the enterprise banks and it skews to higher ASPs.

So when you're asking about relationship pricing, obviously, it's a top-heavy product in terms of the customer base, but that also means from an ASP perspective that's going to be representative of a pretty large Tier 1 digital banking deal or larger.

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

Got it. And then now that the balance sheet is in a really good position. Can you just remind us of kind of capital allocation priorities and kind of build partner versus buy, especially with innovation studio partners?

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

Yes. I mean we feel great about the position we're in. Obviously, alongside this earnings call, we've announced the Board authorizing an incremental $350 million share repurchase program are on top of our existing programs. So we feel good that when it comes to that opportunity, we can be thoughtful and at the appropriate times, exercise that lever.

And then at all other times, we now have, we think, the flexibility and the scale to continue to invest back in the business and you directly see that based on our '27 EBITDA targets. You can see the margin expansion is lighter than what we did in '24 and '25 and what we're now guiding to for full year '26.

So that's an example of us reinvesting back in the business to elongate this growth curve. And then when it comes to M&A, we think now with the debt paid off and the free cash flow generation, as you've seen, we haven't done deals and it's been over 5 years since we've done anything.

So we're not going to do deals for the sake of doing deals, but we certainly have the capacity and the ability to be opportunistic now when the time comes. So long-winded answer, but the reality is it's all three of those things that we're going to be able to optimize for now going forward.

Operator

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