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Q2 Holdings, Inc. (QTWO)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Brent, 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 2021 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the call over to Josh Yankovich, Investor Relations. Sir, please go ahead.

Josh Yankovich

Head-Investor Relations, Q2 Holdings, Inc.

Thank you, operator. Good morning, everyone, and thank you for joining us for our fourth quarter and full year 2021 conference call. With me on the call today is Matt Flake, our CEO; David Mehok, our CFO; and Jonathan Price, our Executive Vice President of Emerging Businesses, Corporate and Business Development.

This call contains forward-looking statements that are subject to significant risks and uncertainties, including with respect to our expectations for the future operating and financial performance of Q2 Holdings. 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, including our annual report on Form 10-K to be filed this week in subsequent filings, and the press release distributed yesterday afternoon regarding the financial results we will

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

Also, unless otherwise stated, all financial measures discussed on this call 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 may be found on the Investor Relations section of our website and in our Form 8-K filed with the SEC yesterday afternoon.

Let me now turn the call over to Matt.

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Thanks, Josh. I'll start today's call by sharing our fourth quarter and full year results and highlights from across the business. I'll then hand the call over to Jonathan to provide more insights into the Emerging Businesses organization he oversees. David will then discuss our financial results in more detail as well as guidance for the first quarter and full year before I conclude with a look ahead to 2022.

In the fourth quarter, we generated non-GAAP revenue of \$132.3 million, up 21% year-over-year and up 4% sequentially. Non-GAAP revenue for the full year was \$500.8 million, up 23%. Our registered user count at the end of the year was 19.2 million, up 8% year-over-year and flat sequentially. We closed out 2021 on an extremely strong note. And as I look back at the full year, I'm proud of the way our team performed. On the sales front, it was a year characterized by two distinct halves.

Bookings performance during the first six months continued to be impacted by the pandemic. However, we saw significant improvement in the buying environment in the second half, with a solid third quarter of broad-based net new activity and an even stronger finish to the year in the fourth quarter. These two quarters combined for the best bookings half in company history.

Over the course of the year, we signed 9 enterprise and 13 Tier 1 customer contracts across our digital banking and lending platforms, and had strong renewal rates. With all this activity, we exited the year with more than 1,200 financial institution customers and over 1,300 total customers.

On the innovation front, our teams continued to deliver new and innovative solutions. We launched the Q2 Innovation Studio and added more than 50 technology partners that can drive even more engagement, stickiness and revenue opportunities for our customers and their end users.

We also added the ClickSWITCH team and solutions to our digital acquisition capabilities, which have helped us land and expand with key customers and drive more profitable account holder relationships. And in a year in which we remained primarily remote, we continued to invest in our people, our culture and our brand, key to our success. We exited the year with more than 2,000 employees, up 16% year-over-year, and were named the Top Workplace for the 11th year in a row.

We also launched our initial ESG report to provide more insight and visibility into our numerous environmental, social and governance initiatives. Last, but not least, we supported our customers through unprecedented volumes of digital engagement. Over the course of the year, our customers' account holders logged into our digital banking platform more than 4 billion times.

Today, more than ever, digital is how our customers deliver their brands and interact with their account holders. And we use the data from this engagement to enhance our products and help our customers operate their business. And in 2021, we moved more than \$2 trillion on our digital banking platform and helped lenders price approximately \$4 trillion in commercial loans.

Today, many commercial clients expect their entire banking relationship to be digital. And we believe this data illustrates our success in digitizing both banking and lending for our commercial customers. These significant levels of engagement applied to our Banking-as-a-Service solutions as well. As of year-end, our Banking-as-a-Service platform supported more than 11 million users and processed more than \$20 billion in transactions.

In total, we believe the engagement we saw in 2021 illustrates how the pandemic has further accelerated a durable shift to digital across customer types and in almost all aspects of the financial relationship. Our ability to support this level of digital engagement is the culmination of a lot of hard work from our delivery and support teams, strong sales execution and a constant focus on innovation.

With that perspective in 2021 in mind, I'd like to shift the discussion to the fourth quarter more specifically. First, we held our Investor Day in December, where we shared our views on the future of the industry and why we believe we are in a favorable position to capitalize on the significant opportunity. We believe financial institutions, fintechs and brands are converging, creating a new frontier in financial services.

In this new frontier, financial institutions will look to digitize every aspect of their business. We have deliberately assembled a portfolio of solutions designed to capitalize on this shift, and believe we are uniquely positioned to partner with customers across banking and lending from retail to small business to commercial.

We saw this play out in our sales execution in the quarter where we had broad-based sales success, both in signing new customers and expanding existing relationships. As a result, the fourth quarter was the second-best bookings quarter in company history. And we view the accelerating sales activity as a signal that financial institutions of virtually every size are engaging in a widespread technology refresh.

Meanwhile, in the new frontier, fintechs and innovative brands are rapidly moving into financial services, creating competitive pressures and new business models, which we believe leads to new opportunities for partners like Q2 to leverage technology to bring these constituents together as partners.

We do this through two primary offerings, with the first being Q2 Innovation Studio, a developer and partner ecosystem that allows our customers and partners to innovate like never before on our digital banking platform. The second offering is our Banking-as-a-Service solution, which provides innovative brands, the technology and financial institution partners they need to embed financial services into their ecosystems.

These emerging offerings gained further momentum in the fourth quarter as well. We continue to rapidly add new technology partners to Q2 Innovation Studio and saw it contribute meaningfully to net new digital banking wins and expansion activity with existing customers.

On the Banking-as-a-Service side, we renewed three of our five largest customers with multi-year contract extensions, reinforcing the confidence our customers have in our platform and strategic road map. We also just unveiled a new brand for Q2 Banking-as-a-Service called Helix, which Jonathan will unpack in more detail shortly.

So now, I'd like to dive a bit deeper into our sales performance from the quarter, which we believe demonstrates how these market forces are creating tailwinds for our business. I'll start with digital banking, where we signed a

broad mix of deals, including three Tier 1 customers. One was a top 100 US bank that had used our corporate solutions for several years and renewed that agreement, while also adding retail and small business banking, more than tripling the committed revenue contribution of this customer.

The second Tier 1 deal was with a bank that is rapidly accelerating their investment in technology with a particular focus on implementing a unified platform across all channels. Where our single platform for retail and commercial gave us a big expansion opportunity with the Tier 1 client I just discussed, here it was a key reason Q2 was selected for retail, small business and commercial functionality.

Our continued innovation on the digital banking side also gives us a broader set of solutions to provide our customers. And as a result, we've seen the average sales price of digital banking deals trend up over time. As we have mentioned before, Tier 2 deals can also carry a bookings impact similar to that of a Tier 1 customer. The second-largest digital banking deal we booked in the fourth quarter was actually a Tier 2 bank that will incorporate retail, small business, and commercial products.

And finally, our portfolio gives us opportunities to land key accounts with ancillary solutions. For example, in addition to being included in numerous net new digital banking deals, we also booked one enterprise and four Tier 1 ClickSWITCH stand-alone deals in the quarter. Landing new clients with these solutions – with solutions like digital acquisition and onboarding or risk management is important because it helps establish a relationship with a customer and makes it easier to expand these opportunities into other areas of our portfolio over time.

Shifting to the lending side, we had meaningful activity across our loan origination and loan pricing solutions. In total, we signed five enterprise and four Tier 1 deals in the quarter, comprised of both net new and expansion wins. On the loan pricing side, our enterprise wins included a top-five US bank that purchased the full loan pricing suite; and a top-five Canadian bank, which included winning separate opportunities for their US and Canadian businesses, reflecting the global opportunity we're seeing with our lending solutions.

We also had meaningful loan pricing expansion activity in the quarter. And we have seen this expansion take several shapes. For example, we had an existing client, a top-10 US bank, expand their use of our solutions into a large new line of business, which grows the revenue contribution of this partnership substantially.

We're also seeing more conventional cross-sell activity where client starts with a loan pricing product and then adopts incremental functionality. This was the case with an existing Tier 1 client that started with a single module in late 2020 and purchased the full loan pricing suite in the fourth quarter.

Expansion is a key driver for our lending solutions. With our three largest enterprise customers, we have seen the contracted average recurring revenue more than double in the first two years of the relationship. And finally, when you consider that buying activity in the enterprise segment of the market slowed considerably at the height of the pandemic, we think our success with net new and expansion sales in the quarter is encouraging and provides us with optimism around the buying environment heading into 2022.

On the loan origination front, we had a particularly strong quarter of cross-selling into existing digital banking customers, especially with our treasury onboarding solution. We had five such cross sales in the quarter, including two Tier 1 deals. Onboarding commercial clients is a critical step in the relationship and one that have remained largely manual and paper based. We believe our recent success in this area is just another proof point that financial institutions are looking to digitize virtually every aspect of their business.

Overall, we're pleased with the momentum in both digital banking and lending in the fourth quarter. We believe the quality and breadth of these wins demonstrates our ability to serve a broad market opportunity. We also had an exciting quarter with strong activity in our emerging businesses organization.

And I'll now hand the call over to Jonathan to provide highlights from Q2 Innovation Studio and Helix.

Jonathan Price

Executive Vice President-Emerging Businesses, Corporate & Business Development, Q2 Holdings, Inc.

Thanks, Matt. As we've discussed throughout the pandemic, innovation has become critically important for financial institutions. New entrants into the space are creating incremental competitive pressures and account holder expectations for innovative digital solutions are at an all-time high.

Over the last several quarters, we shared stories about the Q2 Innovation Studio, which provides our customers and partners with API- and SDK-based access to our digital banking platform. And in doing so, enables them to extend and add new experiences to their digital banking environment faster than ever before. By helping our customers deliver technology rapidly, Innovation Studio can drive deeper engagement in the digital channel and add solutions that generate new non-interest-related revenue.

In the fourth quarter, we saw continued success with Q2 Innovation Studio, adding 16 new partners to our fintech ecosystem. We believe that adding new partners can help us create substantial value for our customers and Q2 over time.

First, the contributions from these partners provide us with meaningful cross-sell opportunities with our digital banking customers. For example, one of Q2's top cross-sell products in the quarter was an Innovation Studio partner solution, and that product also yielded two of our largest individual cross-sales.

The second advantage is that it can unlock verticals in which we otherwise don't currently access, segments like HR and insurance, for example, which we believe can open an expanded addressable market for us over time. During the fourth quarter, we added another vertical through an investing and money management solution that we can now offer directly to our customers, allowing us to tap into this attractive market for the first time.

Finally, because of the speed and flexibility the Innovation Studio provides, we're seeing it create competitive advantages in the market. During the quarter, Innovation Studio not only helped us expand existing customer relationships, but was also included in and cited as a key reason we won roughly a third of our net new digital banking deals. And today, nearly half of our digital banking customers are using at least one of the Innovation Studio programs.

The convergence we're seeing in financial services is also characterized by the continued growth in innovative brands looking to add banking products directly into their ecosystems, allowing their customers to save, spend, and borrow directly with them in the context of the products and services they provide.

To accomplish this, these brands need modern technology on which to build these products, and a financial institution partner to provide the required regulatory infrastructure. We packaged these strategic components in our Banking-as-a-Service offering which today supports some of the most innovative brands deploying this embedded finance strategy. And we've had several recent highlights from this business that I'd like to share.

First, as Matt mentioned, we announced the rebranding of Q2 Banking-as-a-Service as Helix on February 2. We've shared our view that the embedded finance trend is growing in momentum and how important we believe

the Banking-as-a-Service strategy is to our future growth opportunity. By making the strategic shift to Helix, we are building a new identity in the industry, a brand designed to resonate with the target market that is distinct from, but leverages our core market, and a platform that allows these innovative brands to easily embed personalized financial experiences in context and at scale.

As one of the first players in the Banking-as-a-Service market and powering embedded finance for some of the largest and most innovative companies in the country, we look forward to seeing the growth this next evolution of our platform can drive for current and future partners.

On the sale side, we continue to sign net new deals and generate a strong renewal activity in the quarter, signing significant renewals with three of our five largest Helix clients. Our success in this area was highlighted by a multi-year renewal with our largest customer, Credit Karma. In a model where usage is the primary driver of scale, retaining and growing with our largest clients is paramount. So, we were thrilled to see such a strong quarter of key renewals.

And overall, as traditional financial institutions, fintechs, and innovative brands continue to converge, we believe Q2 Innovation Studio and Helix are enabling these parties to work together for their mutual benefits, while helping Q2 build a sustainable competitive advantage.

Thank you. And with that, I'd like to pass the call to David to discuss our financials.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

Thanks, Jonathan. We're encouraged by the momentum we're seeing in the business and we're pleased with our financial results for the quarter, with revenue coming in near the high end of our guidance and EBITDA well exceeding our guidance range. I'll review our results for the fourth quarter and full year of 2021 before finishing with guidance for the first quarter and full year of 2022.

Total non-GAAP revenue for the fourth quarter was \$132.3 million, an increase of 21% year-over-year and up 4% sequentially. Total non-GAAP revenue for the full year was \$500.8 million, up 23%. Both the year-over-year and sequential increases for the quarter were primarily driven by an increase in subscription revenue associated with the deployment of new customers and continued organic growth from existing customers.

We ended the year with approximately 19.2 million registered users, an increase of over 1.4 million users or 8% year-over-year and flat sequentially. The year-over-year increase was attributable to strong organic user growth throughout the year and new customer go-lives concentrated in the first half of the year. Flat user count sequentially reflects typical levels of organic user growth, combined with the slowdown in new customer installations and known backend concentrated customer user churn.

As we previously discussed, we had expected a slowdown in customer installations during the second half of 2021 as a result of the pandemic's impact on bookings throughout 2020 and the first half of 2021. We anticipate this lower level of new customers installations will continue in the first half of 2022 before increasing in the third and fourth quarter, driven by the bookings improvement we observed in the second half of 2021.

Transactional revenue represented 13% of total revenue for the quarter, consistent with the prior-year period and down from 14% of total revenue in the previous quarter. For the full year 2021, transactional revenue represented 14% of total revenue, which is consistent with the prior year, due in part to the increased growth contribution of

transactional revenue generated from Helix, which significantly outpaced revenue growth generated from traditional bill pay.

At our Investor Day in December, we announced that we would begin disclosing annualized recurring revenue, or ARR, at the close of every year. As a reminder, this metric reflects an annualized view of subscription services, transactional revenue, and revenue generated from premier services at the end of the reporting period in addition to all of the contractually committed recurring revenue in place at the end of the reporting period.

ARR grew to \$574.2 million, up 24% year-over-year from \$464.2 million at the end of 2020. This year-over-year growth rate compares to a 16% growth rate observed at the end of 2020. Our ARR growth acceleration for the year was driven largely by new and cross-sale bookings, particularly in the back half of the year

In addition, we observed ARR growth resulting from increasing run rates associated with existing customers, most notably coming from our Helix solutions. ARR was also up 6% sequentially from the third quarter numbers we disclosed at our Investor Day, primarily due to the booking strength we observed in the fourth quarter.

Our ending backlog of \$1.4 billion increased \$121.7 million sequentially or 9%, and equated to a 10% increase year-over-year. The sequential and year-over-year increases in backlog were primarily attributable to net new bookings in addition to expansion opportunities. Sequential increase was also driven by our strongest renewal quarter in two years.

As a reminder, the biggest driver of changes in backlog are net new bookings and renewals. Renewals are subject to seasonality as well as the number of opportunities and target. As a result, while it's possible we could see a sequential decline in backlog for the first quarter of 2022 due to having less renewals and scope, we believe we will have a strong year-over-year backlog growth for the full year of 2022.

Our revenue churn for 2021 was 5.4%, down from 5.9% in 2020. This revenue churn was slightly better than we expected at the beginning of the year, based on strong renewal activity, as we continue to work with our customers to broaden the solution base we provide to their end users and strengthen relationships.

As we previously mentioned, we have historically been a beneficiary of bank M&A activity, and in 2021, we saw a continuation of that trend. Of the M&A announcements made during the year, which involved a Q2 customer, our customers were the acquirer or involved in a merger of equals in over 90% of those transactions, which gives us belief that we will have potential revenue opportunities and a minimal impact to revenue churn in 2022 from recent M&A activity.

Given the anticipated expiration of our PPP solution contracts in 2022, we expect our revenue churn levels for the year could increase modestly to around 6%. However, this incorporates our belief that the digital banking revenue churn specifically will decline year-over-year.

At the end of the year, our digital banking platform installed customer count was 448, down from 450 at the end of 2020. The year-over-year change in customer count was associated with the increase of bank M&A activity amongst our customer base, including instances in which our customers were acquiring existing Q2 customers.

We also had fewer new go-lives take place in 2021 due to the pandemic's impact on buying, beginning in early 2020. Our trailing 12-month net revenue retention rate for 2021 was 119%, down from 122% in 2020. Our elevated retention rate in 2020 included the contribution from the acquisition of PrecisionLender, which took place in the fourth quarter of 2019.

Gross margin for the fourth quarter was 51.5%, up from 48.3% in the fourth quarter of 2020 and down from 51.9% in the previous quarter. The year-over-year increase in gross margin was primarily due to a decrease in services costs resulting from an accounting adjustment recorded in the prior-year period, which accelerated the professional services costs associated with projects in progress for our cloud lending solutions.

A primary driver of the sequential decline in gross margins was an increase in costs associated with the installation of some larger digital lending customers during the quarter. For the full-year 2021, gross margin was 51.9%, which was consistent with the prior year.

Total operating expenses for the fourth quarter were \$61.5 million or 46.5% of revenue, compared to \$50.1 million or 45.7% of revenue in the fourth quarter of 2020 and \$62.4 million or 49.1% of revenue in the third quarter of 2021. The year-over-year increase in operating expenses as a percent of revenue was driven primarily by the onboarding of additional team members concentrated within R&D, as well as sales and marketing.

As a reminder, the incremental head count associated with the acquisition of ClickSWITCH were concentrated within R&D. We ended the year with 2,028 employees, up from 1,749 at the end of 2020.

Adjusted EBITDA was \$10.8 million, up from \$6.1 million in the fourth quarter of 2020 and \$7.3 million in the previous quarter. Our overperformance relative to guidance for the quarter was driven primarily by effectively managing operating expenses across most spending categories. Adjusted EBITDA for the full year was \$37.9 million, up from \$22.2 million in 2020, up 70% year-over-year.

We ended the year with cash, cash equivalents and investments of \$427.7 million, up from \$394.6 million at the end of the third quarter. This increase was largely a result of strong profitability and good working capital management, resulting in favorable cash flow from operations.

Our capital expenditures for the quarter were \$3.7 million. Our total CapEx spend for the full year was \$19.8 million or 3.9% of revenue, which is down from 5.8% in the prior year. In 2022, we expect our total CapEx cash spend, as a percent of revenue, to be near the low end of the 4% to 6% range we've operated at historically.

Cash flow from operations for the fourth quarter was \$39.3 million, which is the highest quarter on record. Strength in operating cash flow was primarily attributable to increased levels of profitability, good working capital management, and favorable seasonality.

As a reminder, we previously stated that the timing of an extra payroll run in Q3 of 2021 would result in more favorable operating cash in Q4. This extra payroll cycle does come back in Q1 of 2022, which, coupled with other working capital seasonality, will likely result in a net use of cash from operations for the first quarter. However, we believe we will experience year-over-year growth in operating cash flow for the full year of 2022.

We generated free cash flow of \$33.7 million during the quarter, resulting in free cash flow for the full year of \$5.3 million, the first time in our history generating positive free cash flow for the year.

Let me wrap up by sharing our first quarter and full year guidance. We forecast first quarter non-GAAP revenue in the range of \$131.5 million to \$133 million, and full year non-GAAP revenue in the range of \$576 million to \$581 million, representing year-over-year growth of 15% to 16%. As a reminder, due to the timeline associated with deals booked in the back half of 2021, we do not expect the revenue recognition to commence with the vast majority of those bookings until the back half of 2022.

As indicated in our guidance, we believe our year-over-year revenue growth rates exiting 2022 will be higher than those observed in the first half of the year. Now, we will be positioned for annual revenue growth rate expansion in 2023. We forecast first quarter adjusted EBITDA of \$7.7 million to \$8.7 million and full-year 2022 adjusted EBITDA of \$40.9 million to \$43.9 million, representing 7% to 8% of non-GAAP revenue for the year.

In summary, for the fourth quarter, we delivered solid revenue results and better-than-anticipated profitability. We generated positive free cash flow for the full year and closed out the year with our second-best quarterly bookings performance on record, driving meaningful increases in our key leading indicators such as ARR. In 2022, we expect to continue to invest in our growth opportunities, which we believe position us to capitalize on our long-term market opportunity.

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

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Thanks, David. To close out today's call, I want to offer a few comments on our business outlook for 2022. First, I'm extremely encouraged by the momentum with which we entered the year. As we continue to monitor the ongoing pandemic and the impact of the macro economic backdrop on our customers, the sales execution from the back half of 2021 suggests that financial institutions are in a better purchasing position than they were a year ago.

We believe one thing the pandemic has clearly underscored is that the time to embrace digital is now. We are entering a new frontier in the industry. And as a result, we anticipate financial institutions, fintechs, and innovative brands will accelerate their investment in financial services technology in the years to come.

And when you consider the breadth of our digital banking and lending portfolio and our competitive advantage with Q2 Innovation Studio and Helix, I believe we are in a unique position to capitalize on the substantial market opportunity in front of us.

With that, I'll turn it over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Terry Tillman with Truist. Your line is open.

Terry Tillman

Analyst, Truist Securities, Inc.

Q

Yeah. Thank you. Good morning, Matt, David, and Jonathan. It feels like this is almost another – mini Analysts Day, lots to go over there, a lot of good stuff to hear, and it is good to see the strengths and improving bookings in 4Q. I had two questions, and I don't know if this is for Matt or Jonathan, but on Helix, and I got to get used to say that name now, Helix, I think you all talked about three of your top-five customer renewals were in the quarter, and you did call out Credit Karma, so that's good to hear. But could you maybe touch a little bit more on those three renewals? Did they expand some of the capabilities? Have the registered user bases grown meaningfully?

And then, the second part of this question is, at the Analyst Day, based on the math, I mean, this business should be a 40% to 50% CAGR potential, if my math is right, by 2026. Is it a linear growth rate over time or could there be some kind of some spikes or it may not be a smooth growth rate? Then I had a follow up for David.

Jonathan Price

Executive Vice President-Emerging Businesses, Corporate & Business Development, Q2 Holdings, Inc.

A

Yeah. Thanks, Terry. It's Jonathan. So, yeah, I would say, in all these cases, I think this is a very good sign for us and a testament to their belief in our platform with Helix. We've seen rapid user expansion in all three examples. And I think we're going to continue to see more of that. And as we think about expansion of products and the road map, I think they're very much subscribing to what we have in the road map and helping guide us as to where we're going to go. So, we've seen expansion of products with those customers and we'll see more in our belief. And yes, we've definitely seen user expansion. So, we're pretty optimistic there.

As far as the growth – shape of the growth, I would say, I wouldn't think it's linear. When you think about these programs and when they launch new products, they're often starting with their first card, if it's a new debit program, for example. And so, the shape won't be linear. But as we launch new programs, you're going to see ramping of users and transactions and that will lead to a revenue spike. And then, as they realize and learn who are the most active users and then continue to find ways to create more active users, then they see some stability in that over time and growth over time. So, I think you've got to watch for new platform launches and new product launches. And that will be your indicator of that the revenue and the transactional growth can come behind that.

Terry Tillman

Analyst, Truist Securities, Inc.

Q

Okay. Thanks, Jonathan. And then, just a follow up for David. Could you touch a little bit more on how we think about the shape of revenue growth through the year? I know you kind of gave some qualitative commentary. But is 2Q the low point and kind of what that low point would be? And then, the second part of this on the shape of re-acceleration, do you think as we go into 2023, we're comfortable with the idea of like two-handle-type growth, 20%-plus growth? Thank you.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Yeah. Good morning, Terry. Thanks. And just to give you a little bit more context on that quarterly base growth rate. The first half of the year we expect to see similar growth rate year-over-year Q1 to Q2. So if you think about the 12% to 14% we laid out there in Q1, you can think about a similar type of growth in Q2 and then that accelerates into Q3 with Q4 accelerating growth from Q3. So, we're set up well to have the FY 2023 acceleration in growth relative to what we said in the Investor Day in December. We're not going to give a handle yet on that. But we still think that 300 basis point plus growth rate acceleration in 2023 relative to 2022 is still absolutely what we're targeting.

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Thank you, Terry. Appreciate it.

Terry Tillman

Analyst, Truist Securities, Inc.

Thank you.

Operator: Your next question comes from the line of Parker Lane with Stifel. Your line is open.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah. Hi, guys. Thanks for taking the questions. Matt, some really nice wins on the Tier 1 front this quarter for digital banking. Wondering if you could expand on the determining factors and considerations that banks and credit unions are making and the decision to go to more modular approach for digital banking versus the full platform for retail, small business and corporate. And with some of that urgency that you've talked about in your end markets, are you seeing those expansion conversations take place closer to the initial land or is it largely consistent with what you've seen in the company's history?

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Yeah, Parker, thanks. I would say that what we're facing on the bank and credit union side is a pretty simple proposition, which is you either fall behind or you keep up on technology. And if you think about what they're faced with, it's a daunting task to take the lending and the deposit side of the house and automate and digitize those experiences. And so, when you think about the surface area that our platform and our technology covers, we're able to walk into these banks and credit unions and offer them the ability to do retail, small business, corporate on both the lending and the deposit side.

So, those decisions, the way they manifest themselves, a great example of that would be we have an existing customer, it's about \$20 billion in assets. They use our retail platform and they use another vendor for their corporate banking. They called us in October and said we need a wire system that's Dodd-Frank compliant mobile and desktop in 90 days. We're asking both of you to do this, which one of you can do it? We did that, got it live in 90 days, had an English and a foreign language version of it. And we were able to do that because it's an on-demand platform, so we on-demand that wire functionality. And the other vendor would have had to install a whole new wire system for them to do that.

So, those examples in that timeframe are very difficult for other vendors to compete with us on. So, when you think about the landscape in the marketplace, like I said, they're either going to fall behind or they're going to keep up, and that's what's driving these decisions. It also kind of manifests itself on the Helix side of the business as

well which is they have the user experience, but they need the banking feature functionality. And then, the partnerships that we have with our existing customers that are banks allows them to expedite the technology they'd get into their customers' hands as well.

So, the idea of buying a stand-alone retail Internet banking system without any commercial functionality attached to it and having to have a new system up doesn't allow you to keep up, you fall behind. And so, that messaging is really resonating. And as you can tell, we had, I think, 22 enterprise and Tier 1 wins in 2021. 16 of those happened in the back half of the year. So, spending is opening up, and these banks and credit unions are really making these types of decisions now and they're thinking about the surface area that we offer, and it's a much bigger solution than anybody else out in the marketplace.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got it. Very helpful. And then, David, I wanted to dive into the predictability and maybe you could touch on the guidance philosophy around Helix and the broader transactional business. You obviously announced some key expansions on that front during the quarter and you've had some new customers join the platform this year. Can you just go into how much – or what insights do you have on the ramp of these customers in 2022, in particular, and what some of the different levers for upside in the model are with that Helix customer base? Thanks.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Yeah, Parker. It's a great question, because it's one that we've obviously been working on throughout the years. As these programs have started to launch and we started to get some meaningful volume out of them, we've learned from them in terms of the forecasting, the seasonality around them. And I think we're a lot more intelligent heading into FY 2022 than we were heading into FY 2021. So, we do have a better handle. We think that's incorporated into the guidance. There is some seasonality. And as an example, some of these programs have higher transaction volume around tax season. We factor that in and we're obviously going to be continuing to monitor all of these as they launch, one; and two, as we start to see user growth adoption and the transactions associated with each user. So, we've really expanded the models that we have around transactional to be more accurate relative to where we were a year ago and feel good about how that's incorporated into the guidance.

Jeffrey Parker Lane

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Makes sense. Thanks again.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Thanks, Parker.

Operator: Your next question is from the line of Pete Heckmann with D. A. Davidson. Your line is open.

Pete J. Heckmann

Analyst, D. A. Davidson & Co.

Q

Good morning, everyone. Thanks for taking the question. My first question might be for Jonathan. How are you thinking about the opportunity around real-time payments and the rollout of FedNow? I mean, are there opportunities to look at things like decoupled debit for some of these new programs?

Jonathan Price

Executive Vice President-Emerging Businesses, Corporate & Business Development, Q2 Holdings, Inc.

A

Yeah. I mean, it's increasingly a talk amongst our customer base, Pete, and we're looking at all sorts of alternatives both within our own innovation team as well as the third-party ecosystem. So, that's one area where Innovation Studio can come in hand. But we're looking at all sorts of options and just trying to figure out what is the fastest, most efficient way to get that solution into our clients' hands. I don't think I have sort of a clear answer yet on that singular route we're going, but it's certainly top of minds for our bank and credit union customers today.

Pete J. Heckmann

Analyst, D. A. Davidson & Co.

Q

Okay. Okay. And then, just in terms of on the lending side, we heard a lot about loan pricing, very strong. It's like every quarter, enterprise and Tier 1 deals, didn't hear as much on the former cloud lending side. Can you give us an update of how that business performed in 2021?

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

A

Yeah. Pete, from a business perspective, keep in mind, we've announced multiple tier treasury onboarding deals in the quarter, which is the cloud lending platform at work. We also are seeing success on the small business lending side with that business.

It was a tough quarter to compete with the PrecisionLender solution. The last two quarters, they've really done a great job of getting in the enterprise. So I don't want that noise to take away from the success that we're having with the cloud lending on the treasury onboarding, the small business lending opportunities that are there.

So it had a strong year, and I think it's just going to have an even better year in 2022 and beyond as the product continues to mature. And we also continue to integrate it into the digital banking platform.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Yeah. The only thing I'd add, Pete, is we had a good quarter overall once again in cross-selling. And cloud lending had a good cross-selling quarter. They were a big contributor to that strength.

Pete J. Heckmann

Analyst, D. A. Davidson & Co.

Q

Okay. Good to hear. Thanks.

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

A

Thanks, Pete.

Operator: Your next question is from Andrew Schmidt with Citi. Your line is open.

Andrew G. Schmidt

Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys. Thanks for taking my questions here. And I appreciate all the business details, super helpful. I wanted to dig into the pipeline and the deal cycle. It sounds like the tone is much more constructive in terms of predictability, particularly when it comes to enterprise and Tier 1 clients. Maybe you could talk a little bit about just whether we're getting back to normalization from a sales cycle and decision-making perspective and how that might translate your visibility from a deal execution standpoint? Thanks.

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

A

Yeah, Andrew. I would say that it's not just Tier 1 and enterprise; we'd mentioned the Tier 2 deal, the Tier 2 activity on the bank and the credit union side of the business, the pipeline. The thing that's nice now is we have more opportunities where you can have movement in a quarter where a deal pushes out and you have enough to cover it.

So the second-best bookings quarter in the history of the company, and we feel like 2022 is going to continue that momentum that we had. The banks and credit unions are, as I said earlier, thinking more strategically and trying to keep up with what's happening on the technology side and they're opening up their pocketbooks, rising interest rate environment. Their stocks are performing a little better. The M&A activity is picking up.

So it's returning to what we had hoped the momentum we had in 2019, going into 2020 would get back. And we're also – I think, unfortunately, we all know how to operate in a pandemic now. So we are seeing better activity, more leads coming in, the marketing team's doing an unbelievable job of creating some demand out there for us. So it feels much better going into 2022, and that's what gives us confidence for the outlook we have for 2022 and 2023.

Andrew G. Schmidt

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Great to hear it, Matt. I appreciate those comments. And then, maybe just a follow up for David. On the user growth, you mentioned some backend customer churn. Maybe you could expand on that a little bit in terms of what's going on, and then just how you're thinking about organic user growth into 2022? Thanks a lot, guys.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Yeah. Sure, Andrew. First, I want to comment on the revenue churn number, which was down year-over-year. And as I said in my prepared remarks, we expect next year digital banking revenue churn to be down again. So, obviously, those are the biggest drivers that go into the financials. We do have user churn associated with that revenue churn, and it just happened to be concentrated much more so into one quarter than it has been in the past and is concentrated in Q4. So that was the impact that you saw in terms of the users quarter-over-quarter.

And organic user growth, going forward, we remain pretty confident, because what we've seen historically is a fairly tight range between 9% and 11%. And we remain confident that we are going to continue to see that. And we do have some areas of opportunity in the M&A space, as we talked about before, where we're seeing our customers be on the acquiring side in the vast majority of these situations. So we have opportunities there. We're going to capitalize on those opportunities, but we feel that that's incorporated in that 9% to 11% that we talked about.

Andrew G. Schmidt

Analyst, Citigroup Global Markets, Inc.

Q

Perfect. Thanks so much, David. Appreciate the help, guys.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

Thanks, Andrew.

A

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Thanks, Andrew.

A

Operator: Your next question is from the line of Andrew Sklar (six) [Alexander Sklar] with Raymond James. Your line is open.

Alexander Sklar

Analyst, Raymond James & Associates, Inc.

Great. Thanks. You alluded this in your response to Andrew's first question, can appreciate there's multiple post-pandemic tailwinds. But what are you hearing from customers and prospects in terms of the interest rate growth and their propensity to buy technology? And does that change at all between your digital banking, lending and off platform offerings?

Q

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Yeah, Alex. So the customers are obviously watching everything that's going on. But the rising interest rates are inevitably positive for the bank and credit union space that we're in. And so, I think you are seeing that translate into more conversations, more deals, more RFPs, more activity that's starting to take place on the business side of things.

A

And then, the fintech and the Banking-as-a-Service and the brands, there's enough activity out there, where kind of this ecosystem is putting pressure on everybody. So brands are trying to figure out how to get into embedded finance. Fintechs are partnering with brands and partnering with banks. And then, banks are looking for ways to do innovative things. We had a large customer rollout a vast initiative on their earnings call last quarter as well.

So the activity is people are coming out of this pandemic and realizing that we're going to have to operate with an Omicron, a variant that may come up, but they are realizing that the digitization of their business is critical and they have to invest in channels, whether it's for the deposit side or the lending side. And as I said, the surface area we cover allows them to move faster and allows them to keep up and not fall behind.

Alexander Sklar

Analyst, Raymond James & Associates, Inc.

Okay, great color. And then, David, I guess, just following up on that 9% to 11% kind of baseline user growth comments. How should we think about that in terms of the split between kind of go-lives – benefit coming from go-lives versus kind of existing expansion within your base? I'm curious kind of where you've gotten to in terms of penetration within your installed base, and if that could still be the same kind of contributor going forward now, post-pandemic?

Q

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Yeah. Look, what we've seen is, obviously, over the last few quarters, a lot of that has come from existing installed base, with the momentum that we've seen in net new over the second half of 2021. We certainly expect new to be a bigger contributor, particularly as we get into the second half of 2022 and heading into 2023.

So, again, if you think about the net new bookings growth and where we've seen that acceleration in the second half, there's a 12-month lag, roughly speaking, in terms of time to revenue when those users come online. So if you factor that lag into your modeling, I think that's going to get you to the relative mix between the two.

Alexander Sklar

Analyst, Raymond James & Associates, Inc.

Q

All right. Great. Thank you.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Thanks, Alex.

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

A

Thanks, Alex.

Operator: Your next question is from Dan Perlin with RBC. Your line is open.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Thanks. And good morning, everyone. I just had a question kind of reconciling the momentum of the business and making sure I understood what David was saying about potentially seeing a sequential decline in 1Q bookings. So, maybe I guess first, if you could just help us understand kind of the dynamics at play there and what's happening at mix. And then, would you expect that if it does sequentially decline to see a more material acceleration as we go into the June quarter?

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

Yeah. Hey, Dan. I want to be clear, there's no commentary about a sequential decline in bookings. I think you might have been referring to backlog. And remember, the backlog number constitutes two key drivers. One is the bookings activity, so net new and cross. And the other one is renewals. And the renewals is – a lot of that is predicated on what's in target for a given quarter. And seasonality-wise, Q1 is typically a slow quarter for us for renewals in target and this is no exception in 2022. So, we certainly expect strong backlog growth for the full year of 2022. Q1 is the one quarter where we have fewer renewals in target. So as a result, it's going to be slightly pressured relative to other quarters in FY 2022.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Got it. Yeah. Thanks for that clarification. I appreciate it.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

Sure.

A

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

And that makes a lot more sense to me. On the competitive front, Matt, we're hearing from all the big core players that they're needing to be much more componentized and modular. We heard it on every one of their earnings conference calls just most recently. And clearly, they're behind the curve relative to you guys. But I'm just wondering, are you seeing any discernible differences in the market yet where you're hearing about them coming up in the RFPs that you guys might be pushing forward? Thank you.

Q

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Yeah. Thanks, Dan. Yeah. I mean, let's just be clear, the big three are in all the deals where we're the core processor. So we've got to compete with them on all the deals and they continue to drive the messaging outwardly and we continue to compete with them favorably. But there is still a level of what actually you have in production and what you can show them and the number of wires and ACHs and all those things that you do. So, yeah, I don't take them lightly. They're all very good companies, but we continue to compete favorably not only against them, but against the point solution providers out there as well.

A

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Okay. Thank you.

Q

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Thanks, Dan.

A

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

Thanks, Dan.

A

Operator: Your next question is from Bob Napoli with William Blair. Your line is open.

Robert Napoli

Analyst, William Blair & Co. LLC

Good morning and thank you. Really appreciate, really good presentation. Additional information is helpful. Also, good to see the momentum in the business with the wins, renewals. It seems like the world is back to normal, knock on wood, I guess. Just making...

Q

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

[indiscernible] (00:52:03).

A

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Yeah. Yeah. We still can't do that outside of our offices, but that's going to change soon, I hope. The LTV to CAC on the deals and the pricing, how important has pricing been? Or has there been – if you think about, Matt, your business over the years, how is the competition? Why are you winning? How much of it is price-based versus technology-based? And what is the returns that you're generating on deals today versus what you've generated historically?

Matthew P. Flake

*Chief Executive Officer,
President & Director, Q2
Holdings, Inc.*

A

Well, I'll let David talk about that piece of it. But Bob, as we just talked about with Dan, I think if you just look at the success we had in the quarter, in the last two quarters, everybody comes to the party on these deals and we are winning the big names where everybody shows up. I'm confident in our pipeline moving forward. It's the breadth of our pipe – it's the breadth of our products. It's the ability to have real examples of digital transformation. I gave the example earlier of a customer that needed a wire function in 90 days and the other player couldn't compete at that pace.

So, innovation is the key to driving these deals. And a track record of doing it over and over is very important rather than a promise of you're going to do it. So, we always tell people, if you're going to believe what somebody says they're going to do, take a look at what they've done in the past. And so, our track record of innovation is unmatched on the digital banking side and digital lending, and we intend to continue to use that as a differentiator for us as we move forward.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

And Bob, to answer the question on deal economics – and actually, before I answer that question, thanks for bringing up the deck. Josh and the team did a good job of putting that together. We want to provide you with more transparency, more information. So, you should expect that every quarter going forward. And those that haven't seen it yet, please go out to the IR site and you can access it.

On deal economics, when we're landing new deals, they'll range in the margin – in the margin range of 40% to 60%. But one of the things we talked about fairly extensively in the Investor Day was one of the things that we're seeing is pretty dramatic expansion over the life of that customer when we get to renewal. So when we get to renewal, the average gross margin is about 70%. And that, obviously, gives us a lot of flexibility to continue to service those customers with new solutions and re-price it for the renewal period. So, we feel really good about not only the deal economics where we are now, which have not changed dramatically, but probably more importantly, the margin expansion we see over the life of the customer.

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

A

Yeah. And Bob, I want to – Jonathan's in the room, I was going to have him add a little bit on emerging businesses, Innovation Studio in particular, on kind of what we saw in the quarter and the momentum we're seeing there.

So, Jonathan, why don't you expand on that?

Jonathan Price

Executive Vice President-Emerging Businesses, Corporate & Business Development, Q2 Holdings, Inc.

Yeah. Hey, Bob. Yeah. No. I would just add to Matt and David's answer that like when you think about something that I mentioned in the prerecorded remarks is, at the end of the day, that one of the big differentiators we're seeing now that we didn't see necessarily have an impact just two or three quarters ago was how Innovation Studio is driving differentiation and net new deals for digital banking. And so, I cited in the comment that roughly 30% of the net new wins in the quarter specifically cited Innovation Studio as a differentiator and a key reason for selecting Q2.

So when you ask about sort of the competitive landscape and differentiation, I just wanted to point that out, because we're tracking that now and seeing it sort of pop up more frequently and in a way that's, I think, going to help us. Obviously, it did in Q4 and will help us going forward.

Robert Napoli

Analyst, William Blair & Co. LLC

Thank you. That's very helpful. And just my follow-up is on the growth in revenue per user, I mean, the user growth that we've talked about earlier on this call now, but the revenue per user, I think, was up 14% for the full year of 2021. And just your thoughts, the number of products each user and the ability to grow that revenue per user, how would you think about the growth of revenue per user?

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

Yeah, Bob, we saw a good user ARPU, and it was up about \$2 year-over-year. And one of the things that we see is, as you layer in there more and more commercial, which is seeing a stronger growth rate than retail, I don't think that's surprising, that continuously helps us. And...

Robert Napoli

Analyst, William Blair & Co. LLC

Correct.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

...the exit rate that we saw in terms of ARPU was above the full year rate. So, not only did we see momentum year-over-year, but we saw momentum throughout the year. And again, we exited at a rate that was above what we saw for the full year.

Robert Napoli

Analyst, William Blair & Co. LLC

Right. Thank you. Appreciate it.

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

Thanks, Bob.

Operator: Your next question is from Matt VanVliet with BTIG. Your line is open.

Matthew D. VanVliet

Analyst, BTIG LLC

Q

Yeah. Good morning. Thanks for taking the question. I guess, following up a little bit on, I think, it was Andrew's question earlier about the second half bookings performance. And Matt, you obviously highlighted, I think it was 22 total large deals across all the different products. Curious if you could help us think a little bit more about how many of those deals are sort of pent-up demand that had been delayed in terms of decision-making either throughout 2020 and early 2021 versus kind of net new opportunities coming up in the pipeline later in 2021? And maybe how many deals are still out there that you've had pretty detailed discussions with customers that still are hesitant to make a decision that you could see come through in earlier 2022 in the pipeline?

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

A

Yeah, Matt, thanks for that question. And I'll take the liberty. I think what you're asking is did we empty all of our bullets in the quarter from the backlog that was there and do we – what's the confidence in the pipeline moving forward. And I will tell you that, clearly, there's some built-up demand that's occurred, but I feel very good about the pipeline in Q1 and Q2, which is the kind of the visibility you have in full year 2022 as well. I think you're going to see a very strong bookings here for 2022 coming out of – compared to what we've had in 2021.

So, there's more deals out there. The pipeline continues to grow. The number of deals we have were not as – it's not as tight in the quarter as it has been in the past where you have to land them. So, we have multiple deals that may move in and out of the quarter. There's always seasonality to Q1 and I think we'll see a little bit of that, but I feel very good about the pipe where it is now, both on the bank, credit union, and the Helix side of the business as well.

So, sure, some pent-up demand is out there, but that pent-up demand, I think, is going to be able to propel us for a while, because there's a lot of decisions that were delayed due to this pandemic. And then, the catalyst for more decisions has been the demand on the digital channels. And so, now, they're coming to talk to us about upgrading their technology. So, it's a perfect storm, to some extent, of what's happening and we feel really good about 2022 and beyond.

Matthew D. VanVliet

Analyst, BTIG LLC

Q

Okay. Very helpful. And then, David, as we look at sort of the overall OpEx curve here and maybe even including cost of sales within it, you've been making a lot of investments to sort of scale the business, be ready to capture a renewal in demand from the end market. But I guess, where are we in terms of some of those step function investments? And as we see growth reaccelerate, should it potentially provide even more leverage on the margin side? Or would you expect to continue to reinvest any upside that you see relative to your typical EBITDA expansion on an annual basis?

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

A

The answer is yes. I mean, we do think, as we see the revenue growth accelerate throughout the second half of this year, you will see some margin expansion. So, that's something that, to your point, we have been investing in. We feel like we are going to get scale and we are going to get efficiencies. However, we are going to continue to invest in the business as well. But we feel like as we see that accelerated revenue growth, the efficiencies are going to slightly offset some of those investments and you will see margin expansion in the second half.

Matthew D. VanVliet

Analyst, BTIG LLC

All right. Great. Thanks for taking my questions.

Q

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Thanks, Matt.

A

David Mehok

Chief Financial Officer, Q2 Holdings, Inc.

Thanks, Matt.

A

Operator: I would now like to turn the call back over to Matt Flake, CEO, to close the call.

Matthew P. Flake

Chief Executive Officer, President & Director, Q2 Holdings, Inc.

Yeah, thank you, and thank you everybody for attending today. We certainly are pleased with the results for Q4 and very optimistic about 2022 and what's ahead for us. So, thanks everybody. We'll hopefully talk to you during the quarter.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's conference call. You may now disconnect.

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