

Presentation

Operator

Good afternoon. My name is Kayla, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q2 Holdings Third Quarter 2023 Financial Results Conference Call. [Operator Instructions]. I would now like to turn the call over to Josh Yankovich, Investor Relations. Sir, please begin.

Josh Yankovich *Investor Contact*

Thank you, operator. Good afternoon, everyone, and thank you for joining us for our third quarter 2020 call. With me on the call today are Matt Flake, our CEO; David Mehok, our CFO; Jonathan Price, our Executive Vice President of Strategy and Emerging Businesses; and Kirk Coleman, our President, who will join us for the Q&A portion of the call. This call contains forward-looking statements that are subject to significant risks and uncertainties, including 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 third quarter of 2023 and subsequent filings and the press release distributed this afternoon regarding the financial results we will discuss today. Forward-looking statements that we make on this call are based on assumptions only as of the date discussed. Investors should not assume that these statements will remain operative at a later time, and we undertake no obligation to update any such forward-looking statements discussed in this call. Also, unless otherwise stated, all financial measures discussed on this call 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 today with the SEC. We have also published additional materials related to today's results on our Investor Relations website. Let me now turn the call over to Matt.

Matthew P. Flake *CEO & Director*

Thanks, Josh. I'll start today's call by sharing our third quarter results and highlights from across the business. I'll then hand it over to Jonathan to discuss a few highlights from our emerging businesses. David will then discuss our financial results and guidance in more detail. In the third quarter, we generated non-GAAP revenue of \$155 million, up 7% year-over-year. We also continued to deliver on our commitment to improve non-GAAP profitability in the quarter, with adjusted EBITDA of \$19.7 million or 12.7% of revenue, an improvement of over 500 basis points of adjusted EBITDA margin over the prior year quarter. In addition to the financial results, we had broad sales success in the quarter. As we've highlighted for several quarters, the rising interest rate environment and events in the banking industry have led financial institutions to prioritize attracting, retaining and growing deposits. That focus on deposits is leading financial institutions of all sizes to reevaluate their customer-facing technology, which is translating into a strong pipeline for digital banking and we believe our digital banking portfolio is uniquely equipped to help financial institutions grow deposits and drive profitability.

From industry-leading retail and commercial solutions that help our customers win valuable deposit accounts, to Q2 innovation studio, which helps drive customer engagement, retention and noninterest fee income and was once again a key driver in every digital banking win from the quarter. This focus on deposits drove a number of key deals in the third quarter. On the digital banking side, we had a broad mix of retail and commercial deals across our market segments. Including two of the top 10 largest digital banking deals in company history. We also signed meaningful expansion deals with multiple enterprise and Tier 1 customers for our relationship pricing solutions. One of the highlights was a net new digital banking deal with a top 20 U.S. bank that has more than \$200 billion in assets. The bank selected our digital banking platform to serve their critical small business and commercial customers. This is a significant win on several levels.

In terms of annualized recurring revenue, this customer is among our top 10 largest digital banking deals of all time. Historically, banks of this size have relied on a mix of homegrown technologies for digital banking. But the current focus on growing deposits is pushing financial institutions of every size to invest in best-in-class technology, improving their user experience and delivering innovation faster than they can on their own. And the depth of our commercial product set, along with our proven ability to deliver,

implement and support commercial products at the enterprise level, helped us earn our way into and ultimately win this significant opportunity. The second deal I want to highlight is a comprehensive platform deal with a \$20 billion bank that was also a top 10 deal in company history in terms of annualized recurring revenue. This is another example of a large bank that felt it was critical to upgrade to a technology platform that would allow them to move fast and differentiate themselves in the current economic environment.

And in this case, they selected us to be the single platform to serve their entire customer base across retail, small business and commercial. In addition to contributing to strong demand for our solutions, some of the changes in our customers' operating environments are creating new opportunities for innovation. We recently announced two new product innovations designed to address these opportunities for our customers. First, we've talked a lot about the focus on deposits. Today, many of our customers are evaluating new creative ways to differentiate themselves, reach new customers beyond their traditional markets, and acquire and support retail deposit relationships profitably. To help address these challenges, we recently announced Q2 fabric, a turnkey direct bank offering, which combines our digital banking front end with the lightweight core of Helix. This is a great example of our ability to innovate and quickly respond to new market dynamics. And Jonathan will provide more detail on Q2 fabric shortly.

Another area of focus for our customers today is artificial intelligence and to help them capitalize on that opportunity, we recently announced the Andy CoPilot platform, a copilot solution purpose-built for bankers. We originally built Andy in 2017 as a chat driven assistant within our relationship pricing solutions. Today it is used by more than 29,000 bankers across 150 financial institutions, where it delivers bank, client and deal-specific pricing recommendations in real time as commercial bankers design their deals. For AI to deliver real value, it has to be powered by data and knowledge that is specific to our industry and customers. And via the Andy CoPilot platform, we will combine our vast amounts of digital banking and lending data with a proven copilot that can deliver the right information to the right banker at the right time, helping make our customers more effective and efficient across a number of critical use cases within the Q2 product portfolio and beyond. While Andy has been in production inside of relationship pricing for years, both Q2 Fabric and the Andy CoPilot platform, are early in their product life cycles.

Over the coming months, we'll be partnering with early adopters to further develop and refine both solutions, and we look forward to sharing relevant updates on future calls. We have always been an innovation-driven company in both Q2 Fabric and the Andy copilot platform demonstrate our ability to leverage and develop our unique technology assets to solve real timely challenges our customers face in the market. With that, I'll hand the call over to Jonathan to share a few highlights from our Q2 innovation studio and Helix teams.

Jonathan A. Price

Executive Vice President of Emerging Business, Corporate & Business Development

Thanks, Matt. I'll start with Q2 Innovation Studio, which had a particularly strong quarter, driven in part by the tremendous engagement and activity at Connect, our annual client conference. We had record adoption in terms of our customers partnering with fintechs. Almost 100 new partnership deals in the quarter, representing 40% growth over our previous best quarter of adoption. The benefit of this adoption is that it can lead to a flywheel effect. The more partners and customers use Innovation Studio, the stronger the ecosystem becomes, which in turn can drive meaningful customer outcomes, increase retention and differentiate Q2 in the digital banking sales process.

As Matt mentioned, Q2 Innovation Studio has become an essential part of our value proposition and was once again a key driver in all of our digital banking wins from the quarter. We're particularly excited that the top 20 bank we signed plans to make Q2 Innovation Studio a core component of its digital strategy where it will use Innovation Studio to deliver innovative, fee-generating products to small business and commercial customers. Shifting to Helix. We had a few noteworthy highlights I'd like to share. First, we had a meaningful cross-sell with one of our largest clients. We worked with this customer to develop a new piece of functionality for the Helix platform that will allow them to have full control over transaction authorization to drive a better customer experience and improved fraud management. The addition of this new product will drive an immediate lift in the monthly recurring revenue associated with this partnership, and it also gives us a new piece of functionality that differentiates Helix from other embedded finance providers, and can be cross-sold into other key Helix customers and prospects.

Second, we had a meaningful customer go live in the quarter with a bank that launched a new digital brand powered by the Helix core technology. This customer made the decision to launch a new brand in order to attract digital-first consumers outside of its traditional market with targeted deposit products as a way to drive new customer acquisition and grow deposits. This is a trend we're seeing more and more, and it's exactly the use case that led us to develop Q2 fabric. Given the current priority on deposits, many financial institutions are looking to launch new digital-only products like stand-alone high-yield savings accounts that they can use to attract and profitably serve retail depositors. To execute this strategy, financial institutions require a lightweight, flexible core technology that allows them to launch easily, onboard new customers seamlessly and then profitably serve and grow those retail relationships over time. The Helix core platform is built to serve this purpose. It operates in real time. It's designed for digital-only customers and it can

support retail deposit accounts at a fraction of the cost of traditional cores. And it is a proven, highly scalable technology that supports more than 15 million end users today.

Through Q2 fabric, we will use the Helix core combined with our best-in-class digital banking front end to give financial institutions a turnkey full stack solution to easily launch their own digital deposit products. It is very early innings for Q2 fabric, but we believe it's an exciting new way to take Helix to market with financial institutions. And we believe that over the long term, Q2 Fabric has tremendous potential to help our customers differentiate themselves diversify their strategies and grow deposits. With that, I'll hand the call over to David to discuss our financial results from the quarter.

David J. Mehok
CFO & Principal Accounting Officer

Thanks, Jonathan. When we began the year, we communicated our focus on delivering accelerated growth in subscription revenue coupled with significant expansion of our margins and cash flow. Through 3 quarters of the year, we've made good progress on these focus areas. I will now discuss our financial results with emphasis on these priorities and conclude with updated guidance for the fourth quarter of 2023. Non-GAAP revenue for the third quarter was in line with our expectations. Coming in at the midpoint of our guidance, with adjusted EBITDA once again exceeding the high end of our guidance due to an increasing mix of subscription revenue and continued execution on accelerated cost efficiencies across the business. Additionally, our growth in subscription ARR, backlog and average selling price for the quarter benefited from our continued net new booking success, highlighted by two digital banking wins, which were among the top 10 largest deals in company history. Total non-GAAP revenue for the third quarter was \$155 million, an increase of 7% year-over-year and flat sequentially.

The year-over-year increase was driven by growth in subscription-based revenue which was up 11% year-over-year. As we previously communicated, third quarter revenue growth rates were expected to temporarily come down. The annual growth rate was pressured by a high number of customer go-lives and associated revenue concentrated in the third quarter of 2022. This year's go-lives are concentrated in the fourth quarter, and as a result, we expect a reacceleration of revenue and subscription growth as we close out the year, which is reflected in our guidance. The relatively flat sequential revenue was a result of subscription revenue growth offset by an anticipated decline in the usage-based revenue associated with normal seasonality we observed within our Helix business. Our subscription revenue for the quarter was 77% of total revenue a company record and up from 75% in the previous quarter and 74% of total revenue in the prior year period. Both the year-over-year and sequential growth of subscription revenue were driven by an increase in cross-sold solutions within our digital banking business. Transactional revenue represented 10% of total revenue for the quarter, down from 11% in both the previous quarter and the prior year period.

The decline in transactional revenue as a percent of total revenue was a result of the trends we started to observe last year, including continued secular slowing of bill pay, as well as reduced growth in Helix-based transactional revenue. As expected, we also saw a continued decline in services and other revenue. This was the result of lower revenue from discretionary services as well as a decline in Helix pass-through revenue, which is categorized in this revenue line item. During the quarter, we added more than 300,000 users to our digital banking platform, ending the quarter with over 22 million registered users, an increase of 5% year-over-year. Total annualized recurring revenue or total ARR grew to \$693.6 million, up 9% year-over-year. Previously, we referred to total ARR as ARR. Going forward, we will be disclosing subscription ARR as well. Our subscription ARR grew to \$547 million, up 14% year-over-year. Which was driven largely by net new deals within our digital banking business and continued expansion with existing customers. Given the high concentration of go-lives that occurred in the third quarter of last year, we anticipated a deceleration in year-over-year total ARR growth for the third quarter, followed by a reacceleration in the fourth quarter.

We also expect subscription ARR growth will exceed total ARR growth for the remainder of the year and into 2024. We ended the quarter with total backlog of approximately \$1.6 billion. This represents year-over-year growth of 13% and sequential growth of 2% or \$37 million. Year-over-year and sequential increase was primarily attributable to strength in net new bookings, particularly within digital banking, where we saw increases in ASP and contract duration as well as a strong renewal performance. Gross margins were 53.9% for the third quarter, up from 52.1% in the prior year period and down from 54.2% in the previous quarter. The year-over-year improvement in gross margin was driven primarily by a favorable mix in revenue towards our higher-margin subscription-based business in addition to cost efficiencies delivered over the last 12 months. The sequential decline in gross margin was attributable to an increase in implementation cost during the quarter. Total operating expenses for the third quarter were \$71 million or 45.8% of revenue compared to \$69.8 million or 48.2% of revenue in the third quarter of 2022 and \$72.9 million or 47.1% of revenue in the second quarter of 2023.

The year-over-year and sequential decrease in operating expenses as a percent of revenue were driven predominantly from improved cost scaling to revenue within sales and marketing as a result of operational efficiencies. The year-over-year decrease also benefited from improved utilization of our global workforce within R&D. In addition, we saw a sequential decline of G&A expenses associated

with lower third-party costs. As a reminder, our annual customer conference took place in the second quarter, which resulted in sequential favorability within sales and marketing. Total adjusted EBITDA was \$19.7 million for the third quarter, up from \$10.8 million in the prior year period and \$17.6 million in the previous quarter. This quarter's results demonstrate an improvement of over 500 basis points in adjusted EBITDA margin from the prior year period driven our revenue mix and cost initiatives already discussed. We ended the third quarter with cash, cash equivalents and investments of \$290.8 million, up from \$280 million at the end of the second quarter. During the quarter, we generated cash flow from operations of \$16.8 million. For the first 9 months of the year, we've also generated \$9.8 million of free cash flow.

We anticipate driving meaningful free cash flow in the fourth quarter aligned with historical seasonality, which we expect to result and an adjusted EBITDA to free cash flow conversion of over 60% for the full year. Let me wrap up by sharing our fourth quarter and updated full year guidance. We forecast fourth quarter non-GAAP revenue in the range of \$160.3 million to \$163.3 million and full year non-GAAP revenue in the range of \$622.5 million to \$625.5 million, representing year-over-year growth of approximately 10%. We forecast fourth quarter adjusted EBITDA of \$21.2 million to \$23.2 million, and we're raising our full year 2023 adjusted EBITDA guidance to \$75 million to \$77 million, representing approximately 12% of non-GAAP revenue for the year. In summary, for the third quarter, we delivered non-GAAP revenue results at the midpoint of our guide and adjusted EBITDA results over our expectations. We continue to see subscription revenue becoming a more meaningful mix of our business and anticipate our subscription revenue growth will accelerate in the fourth quarter. Over the course of the last year, we've demonstrated our ability to drive meaningful expansion in gross margin and adjusted EBITDA margin, which gives us the confidence to raise our adjusted EBITDA outlook for the remainder of the year.

As we continue to go through our 2024 planning process, I want to share some preliminary expectations. Based on the bookings success we've observed year-to-date, our sales pipeline and the strength of leading indicators such as subscription ARR, we anticipate that our subscription revenue growth rate will be at least 13% for the full year 2024. We expect this will result in a greater mix of higher-margin revenue in 2024. And when coupled with our efforts to drive greater cost efficiencies, we remain confident in our ability to achieve our previously communicated rule of 30 late in 2024 and drive total company adjusted EBITDA of at least \$105 million for the full year of 2024. With that, I'll turn the call back over to Matt for his closing remarks.

Matthew P. Flake
CEO & Director

Thanks, David. I'll conclude by reiterating a few key takeaways from the quarter. First, we saw the focus on deposit growth continue to drive demand and sales success. We had a broad range of net new and expansion wins highlighted by two of the top 10 largest digital banking deals in company history. We're continuing to innovate with new solutions that we believe can solve real pressing problems for our customers and create new ways for Q2 to deepen our own customer relationships over time. And we're surrounding our technology with a superior customer experience. Given the criticality of digital in this environment, effective software delivery and customer support are at a premium, and they are important differentiators for us. All of these things combined to create a business that is extremely durable. And given the strength of our pipeline, I believe we will finish the year strong and position ourselves for continued growth and profitability improvements in 2024 and beyond. Thank you, and I'll hand it over to the operator for questions.

Question and Answer

Operator

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

Alexander James Sklar

Raymond James & Associates, Inc., Research Division

Great. Thank you. So starting with the top 20 win matter, Kirk. I just wanted -- can you just talk a little bit more about that from a competitive standpoint, what was the customer using before? Was this a formal RFP, why you may have one versus the competitors? And then just in terms -- do you expect that to contribute just given it was booked in third quarter to anything before the end of 2024.

Matthew P. Flake

CEO & Director

What was the last part of that? You cut out on the expect before the end of Q4.

Alexander James Sklar

Raymond James & Associates, Inc., Research Division

If you could -- if that -- the time of that implementation can contribute to revenue in '24?

Matthew P. Flake

CEO & Director

Yes. So we don't mention who the competitors are. But on a deal like that, anybody who had a commercial product was in competition, and it's really a testament to the work we've put into our commercial banking offering over the last 19 years, candidly, in the work we've done, not just around features and functions, but how to deliver it, support it, keep the systems up and running. It seems like there's a lot of problems with other vendors in the space with those. And so to win a deal like that, it's a highly competitive deal. We're really proud of the work the team did, not just the sales team but the whole company, and it's -- our products are really catching stride with the differentiation around single platform, the way it looks on a mobile phone and tablet and the desktop, being able to provide a next-generation experience to the commercial customers of that financial institution. And as I said in the prepared remarks, a lot of these larger financial institutions are realizing that they can't keep pace with technology providers like us and the expense around having people to do the development and the engineering becomes too much for them.

So I think this is the beginning of more opportunities upmarket. Obviously, we signed another \$20 billion bank for the full suite. There's a lot of expansion opportunities within that. As far as the go live at the end of the year of next year, there's a chance for the fourth quarter, but we've got to get a little further along in the project. These guys take a little more time than others. But really proud of the team. It will contribute to '25, obviously, but really proud of the team and the work that we've done, and really excited about working with this financial institution.

Alexander James Sklar

Raymond James & Associates, Inc., Research Division

All right. Great color and great win. David, just a follow-up for you. On the raised free cash flow outlook, can you just help bridge kind of what's driving that better EBITDA conversion? And then in terms of -- is that a right -- a good place to start in terms of thinking about free cash flow conversion going forward?

David J. Mehok

CFO & Principal Accounting Officer

Yes, Alex. Obviously, this has been a focus area of ours. And last year was a pivot point for us. We generated about \$6.5 million of free cash flow in 2022. This year, our working capital management has been outstanding across the board, both with our payables and receivables. And our -- we're a CapEx-light business, you know that, and we've managed our very judiciously throughout the year. And again, we think this 60% should be viewed favorably. It's viewed favorably internally, and we're going to continue to drive that forward into 2024.

Operator

And your next question comes from the line of Matt VanVliet with BTIG.

Matthew David VanVliet
BTIG, LLC, Research Division

You mentioned that innovation Studio was certainly key to most, if not all, the wins in the quarter. But curious from here forward, now that you have a lot more customers using it, a number of partners also contributing, is it something that is sort of a meaningful revenue driver in and of itself? Or is this just another key component of the platform to sort of upsell, cross-sell throughout your customer to get more total users and more total usage of the platform?

Jonathan A. Price
Executive Vice President of Emerging Business, Corporate & Business Development

Matt, it's Jonathan. It is both. I mean we're clearly seeing it impact our net new wins. And obviously, with existing customers, it allows us the opportunity to engage more deeply with them and AbbVie solutions. But the revenue impact is starting to grow. Obviously, a couple of years ago when we went GA with this, we were starting from 0, and now we're starting to see more and more flowing from the economic relationship that we strike with these partners as the banks and their end users sign up for it. So it will be a more meaningful revenue contributor over time. But the strategic value of it obviously goes well beyond the revenue contribution. And I think it's worth mentioning, too, that the revenue we generate from this model is different than historical partnerships, which in this model, it's all net revenue. So the margin profile of these incremental dollars is pretty attractive. So it will take some time for this to be very material from a revenue standpoint, but we're starting to see, as I mentioned, in the script that this flywheel is starting to turn, and we're excited about not only the strategic value of it, but the revenue implications down the road.

Matthew David VanVliet
BTIG, LLC, Research Division

Very helpful. And then when you look at these very largest customers that signed both this quarter and in recent quarters. As you go in to add your functionality, are you truly sort of ripping and replacing all of their homegrown functionality, or some of these just sort of sitting out in front, being additive, adding those next-gen capabilities but not necessarily going in and doing the most basic sort of blocking and tackling there. So just curious on how big the footprint is and how much sort of future upsell, cross-sell come alongside of those.

Matthew P. Flake
CEO & Director

Yes, Matt, as I've talked about on the larger the bank you get, the where they make a decision on the product for the business line. So commercial makes a decision on a commercial product, retail makes a decision on a retail product. It's usually a full rip and replace because you can't confuse your customers with multiple systems. And the expansion opportunity is tremendous if you execute on the delivery and provide the service that you think -- that we set the bar to provide. So I think the larger the deals are, you have to look at them as one win and then there's a potential two to three more expansion wins, whether it's relationship pricing, retail, small business, those are all greater opportunities for us. But it also is a testament to we are winning in the best-in-class feature functionality to win these deals because you're not going to move your commercial customers to a subpar product. So all of those things are big tailwinds for us. As I said in the prepared remarks, the durability of this business, you get through '24 and '25, it just sets up really nicely for us with these opportunities that are out there, and we're competing favorably especially on the commercial side of the business right now.

Operator

And your next question comes from the line of Terry Ten with Truist Securities.

Unknown Analyst

This is Bobby on for Terry. First one, just on renewals. Not so much there was in 3Q, but can you talk about renewals and how they're looking in terms of expanded products? Are they increasing usage, paring back, et cetera? And then I had a one follow-up.

Matthew P. Flake
CEO & Director

Well, from a cross-sell perspective, we had a 20-plus percent lift year-over-year from the quarter -- the third quarter last year. You're beginning to see -- we had a big client conference in May which always results in the excitement around the new products and the offerings that we're having. It also extends contracts as well. So I think you're going to see the fourth quarter is historically a really large renewal quarter for us. And with renewals, you typically get more cross-sell. So I think that the renewal numbers this year,

I'm really happy with the customer success team and what they've been doing as well as the delivery and availability teams because customers want to renew with us, they don't want to switch. So I think you're going to see a solid renewal numbers this year for us in the fourth quarter. Obviously, there's a lot to get done. A lot of those contracts come up, we're heads down on those. So renewals are looking very good for '23. Foreshadowing, I think '24 is going to be solid as well. And then the cross-sell that goes with it, it should be a rather large quarter for us on the cross-sell side with those renewals.

Unknown Analyst

Very helpful. And then any change in the last 90 days associated with length of sales cycles, close rates on large deals, expansion, sales, et cetera?

Matthew P. Flake
CEO & Director

Thanks, Bobby. Win rates are where they've been this whole year, they're right around the range they've stayed at. So we're really happy with that and feeling really good about that the customer -- the win rates out there, obviously, especially upmarket. I think they're above 50%. So I feel really good about the [indiscernible].

Operator

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

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

Matt, I wanted to ask you a little bit about fabric here. It seems pretty interesting out of the box. I'm curious in particular to hear who you're targeting with this solution, is this primarily going to be sort of net new customers that you're going after? Or is it something that will appeal to your existing base of customers?

Matthew P. Flake
CEO & Director

Yes, I'll have Jonathan answer that question. He's running the business, and he's done the work on this, so I'll let him cover that.

Jonathan A. Price
Executive Vice President of Emerging Business, Corporate & Business Development

Yes. So Parker, when we think about the initial phase of the go-to-market here, we've received inbound inquiries in a world where banks and credit unions are really focused on low-cost deposit gathering opportunities in a digital-only channel, we're seeing a lot of inbound inquiries, which is exciting, and that could lead to some net new institutions being part of the initial phase of Q2 Fabrics launch in the market. But candidly, I think the most near term and exciting opportunity for us is within our base. Those are existing Q2 customers where we have strong relationships. We have the digital banking platform up and running in most of those cases. And so that, to us, is where we're seeing the most opportunity and where we think the early phase of this will come from. Over time, I think it will be interesting to see the demand environment and how durable it is because we think this environment is here to stay around the orientation around their deposits. And so net new can be more prevalent over time. But in the near term, we really are focused primarily on the existing customer base.

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

Understood. Okay. And then on Andy, another interesting announcement there. I know it's very, very early days, not even in full production yet. But how are you guys -- or what's the reception been amongst your customers to some of the plans you've rolled out there from a generative AI standpoint? And is it too early to think about monetization? Or do you have some framework for how you look to monetize that?

Kirk L. Coleman
President

Hey, Parker, it's Kirk. I'll take that. So yes, it's a little early on the monetization. What we can tell you, though, is that we've had really a warm reception from our customers as we've demoed some of the live code that we've got built for this. We have to remember that this is getting built on and with assets that we've had in production for a long time. If we think about Andy inside our relationship pricing tool really and now using that knowledge model with the enhanced generative AI capabilities, coupling that with a substantial

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amount of data that we have kind of -- this is -- these are solutions that are bank ready, they're make tested, right? They provide all the security and compliance and answer the bell. A lot of the items, frankly, that President Biden mentioned in his executive order yesterday. So we feel good about our position in that way. we've demoed this for a large group of bankers that was here with us in Austin last week about 125. Got a very positive reception from that, that we were addressing real and practical problems that are a drag on their business today. And a good example of that is how do we make their commercial bankers even more productive by reducing the amount of administrative tasks that they have to do, 40% to 60% of a commercial bankers Day has been on kind of repetitive administrative things. So that's a starting point for us. And I could tell you in the room like they had a lot of different ideas of where that could go. So first things first, we got to stay focused on this first kind of beta phase. We've got a number of customers signed up for that. and we'll keep you guys abreast of what we're up to as we get into first quarter '24.

Operator

Your next question comes from the line of Matthew Roswell with RBC.

Unknown Analyst

It's Matt Roswell on for Dan Perlin. Congratulations on a nice quarter. I have a couple of questions. First, if we could get into the transaction revenue a little bit. Obviously, there's pressure from the macro environment. Do you mind kind of talking about the bill pay sort of pressure there and whether there's still pressure on the transactions associated with the Helix clients?

David J. Mehok

CFO & Principal Accounting Officer

Yes, sure, Matt. So we began talking about some of the pressures we were seeing on a little bit over a year ago. And it's continued, and we believe a lot of this is secularly driven. What we've seen is volumes slow down fairly significantly across the board. We were anticipating as we enter 2022, that we would see sort of mid-single-digit growth, and it actually contracted slightly, and we've seen that trend continue throughout 2023. And a lot of that is consolidation of spend. It's using third parties and fintechs to pay bills essentially outside of traditional bill pay. So again, these are some of the macro drivers that we're seeing that are pressuring it. And on the Helix side of things, there's been obviously a broader impact to fintechs writ large. And we've obviously felt that in our Helix business. We do have a very high concentration of large fintechs, which are financially stable. They're doing great with us. We've got great business there. But we have seen the overall transactions from them coming down. And that's been reflected in both the transactional and then we do have a pass-through business that's also incorporated in our other and the services and other categories. So those are the two areas where you'll see that pressure on the Helix business.

Unknown Analyst

Okay. And on the nice revenue mix shift with the subscription revenue coming up, but is that a mix of the products or banks being more willing to take a subscription deal as opposed to a license deal? Or are you all just actively pushing banks in that direction?

David J. Mehok

CFO & Principal Accounting Officer

No, Matt. I mean subscription is really the core solution for us. I mean that is our platform solution. It's recurring in nature. These deals are typically about 5.5 years. And the basis of those deals is typically going to be the subscription itself. So this is the highest margin business that we have of those three, and it's obviously by a wide margin. And the mix up that we've seen there is a combination of all the strength that we've seen in that platform business or digital banking, which we've been talking about, combined with some of the pressures that we've seen in those two other revenue categories. So those two combined are resulting in mix up. And again, it gives us better visibility into the business and obviously mix us up to higher profit.

Unknown Analyst

Okay. And my final question is the cash conversion has come up nicely as you talked about. Where do you see yourselves deploying that free cash flow going forward from here?

David J. Mehok

CFO & Principal Accounting Officer

Yes. There's various options for us in terms of capital allocation. It's something that we focus on very acutely and consistently. That is -- and we're looking out, obviously, not just to next year, but over the next 3 years, we do have debt that we're servicing, and that comes due in 2025 and 2026. And obviously, if the market allows, there may be other opportunities down the road, I would say that, that wouldn't be something that we would be considering for a while. But as we sit here today, that is cash that we're going to be using

to deploy back into the business in some instances and also continue to work on our debt. And as you look out to '25 and '26, we've said this publicly before, we feel we have the ability to service that debt and retire with the cash on our balance sheet, combined with the cash that we're going to generate.

Operator

Your next question comes from the line of Andrew Schmidt with Citi Global Markets..

Andrew Garth Schmidt
Citigroup Inc., Research Division

I hopped on late, so I apologize if this -- my questions have been answered. But I was wondering if you could dig into the cross-sell motion a little bit. Talk about just the opportunity to go back in the existing base. Obviously, this is something you guys have been doing for some time. But I'm just curious, given the expansion of the products and et cetera, the opportunity remains from a cross-sell perspective?

Matthew P. Flake
CEO & Director

Yes. Thanks, Andrew. And that hasn't been asked. I think one of the -- there's multiple levers to it. If you think about the 80 customers that we have on digital banking above \$5 billion in assets, many of those are only using commercial or retail and they may not be using the full suite, where they may be using just small business. And so there's a lot of opportunity to go cross-sell another Tier 1 deal essentially in there. And then the other thing is the road map and the innovation that we have put out, we talked about AI, we talked about fabric. But the top cross-sell products for us are security solutions, our Centric solutions are [solar], our other AI-driven solutions, account opening, innovation studios. So we've driven a lot -- we've got a lot of products that we can go cross-sell even if you're running retail small business and corporate banking with us. So it's -- the opportunity for us is really about the customer success team is going and establishing a strategic posture with our customers, figuring out where they want to go. And we have a solution we're almost dating whether it's getting deposits, solving loan problems, pricing relationships, securing their data, all those things are solutions that we have.

And so for us, I think you're going to see -- you went on earlier, you're going to see a really strong fourth quarter of cross-sell and renewals. And also, those are getting tacked on to the new deals as well. So ASPs are up still 35%, I think, over -- year-over-year. So all of that adds to the cross-sell, but also it's a profitable business for us and it's sticky and is differentiated. So I feel really good about where we are from a product perspective, the maturity of our products, the experience that customers have when they have them and our ability to deliver and support them at a world-class level.

Andrew Garth Schmidt
Citigroup Inc., Research Division

Super helpful. And then maybe actually segues well into my next question, which is on product velocity. We had a conversation about the tech -- it was really good conversation by the tech stack a couple of months ago and the things you're doing there. But to what extent does that influence product velocity being able to roll out new products at a faster pace. Just asking because obviously, it just seems externally like the product velocity has picked up a little bit. Maybe it's business usual, but love to get your perspective, it's just product pipeline velocity and things like that.

Matthew P. Flake
CEO & Director

Yes. I mean we try to marry -- there's really three levers to product. There's -- what's going on in the world, which is on the cutting edge, whether it's AI or things happening that are innovative, it could have been. It could be user experience, those types of things. And then there's the things that like Bank of America, Wells chase offer. Those are the feature functions that you kind of have to add. And then there's the operating efficiency of the business that the customer has. And we try to marry those and figure out what the priorities are. Kirk mentioned, we had 125 customers in a couple of weeks ago here in Austin, plus we had a client conference with 1,000 people where they share the problems they're trying to solve. We try to fall in love with the problems and build solutions with our customers to solve those problems. So philosophically, delivering technology faster is critical. And if you look at innovation studio, there's nobody that delivers a third-party product into an environment as quickly as we do. We have the 1,400 outside -- developers outside of Q2 that are developing on our platform and integrating it and then we have 150, I think, at least partners that are participating in the system. So we could just -- we continue to see our ability to be open and listen to our customers and solve problems with them collectively with them is a differentiator for us, and we're going to continue to do that.

Operator

And there are no further questions at this time. This will conclude today's conference call, and you may now disconnect.

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