



Third Quarter Fiscal 2025 Earnings Conference Call

Presenters

Daniel Dines, Founder & Chief Executive Officer

Ashim Gupta, CFO & COO

Monica Gould, Investor Relations

Q&A Participants

JP Morgan – Mark Murphy

Barclays – Raimo Lenschow

William Blair – Jake Roberge

TD Cowen – Bryan Bergin

RBC Capital Markets – Michael Richards

Morgan Stanley – Sanjit Singh

Truist Securities – Terry Tillman

Evercore ISI – Chirag Ved

Canaccord – Kingsley Crane

Oppenheimer & Co. – Brian Schwartz

Monica Gould, Investor Relations:

Good afternoon and thank you for joining us today to review UiPath's third quarter fiscal 2025 financial results, which we announced in our earnings press release issued after the close of the market today. On the call with me are Daniel Dines, UiPath's Founder and Chief Executive Officer, and Ashim Gupta, Chief Financial Officer and Chief Operating Officer, to deliver our prepared comments and answer questions.

Our earnings press release and financial supplemental materials are posted on the UiPath Investor Relations website: ir.uipath.com. These materials include GAAP to non-GAAP reconciliations. We will be discussing non-GAAP metrics on today's call.

This afternoon's call includes forward-looking statements, including regarding our financial guidance for the fourth quarter fiscal 2025 and our ability to drive and accelerate future growth and operational efficiency and grow our platform, product offerings and market opportunity. Actual results may differ materially from those expressed in the forward-looking statements due to many factors and therefore, investors should not place undue reliance on these statements. For a discussion of the material risks and uncertainties that could affect our actual results, please refer to our Annual Report on Form 10-K for the year ended January 31, 2024, and our subsequent



reports filed with the SEC, including our Quarterly Report on Form 10-Q for the period ended October 31, 2024 to be filed with the SEC. Forward-looking statements made on this call reflect our views as of today and we undertake no obligation to update them.

I would like to highlight that this webcast is being accompanied by slides. We will post the slides and a copy of our prepared comments to our investor relations website immediately following the conclusion of this call. In addition, please note that all comparisons are year over year unless otherwise indicated.

Now, I would like to hand the call over to Daniel.

Daniel Dines, Founder & Chief Executive Officer:

Thank you, Monica. Good afternoon everyone, thanks for joining us. I want to take a moment to thank our team for their improved execution and our customers and partners for everything they do to make UiPath successful.

Our third quarter results exceeded the high end of our guidance across all key financial metrics, a testament to our improving execution and the compelling value that our AI-powered automation platform delivers to our customers. We ended the quarter with ARR of \$1.607 billion, an increase of 17%, driven by net new ARR of \$56 million. Third quarter revenue was \$355 million, and we delivered non-GAAP operating income of \$50 million.

As many of you have seen, we unveiled our vision and roadmap for agentic automation at our FORWARD user conference in October. In the coming months, the entire UiPath Community will be able to build, maintain, and deploy agents, significantly expanding the surface area of automation within their companies. This will mark our most consequential product launch in years. AI agents will be first class citizens on our platform. They will use UiPath robots to securely access corporate systems and databases to harvest information for agents to act on.

Our customers are already embracing the revolutionary potential of UiPath Agents with enthusiasm. I'll quote a large global airline customer, who recently told us that "this shift toward Agentic Automation is not just an upgrade—it's a paradigm shift in how we perceive the potential of our operations." Customers are excited about the agility and creativity that our Agents bring, and are comforted by the security, governance, compliance and accuracy afforded by our robots and our overall platform.



We are excited that Agent Builder has begun accepting registrations for our private preview, which will begin later this month. We've had the fastest pace and the largest number of registrations in our company history, with over 1,000 organizations signed up so far. As an example, two weeks ago, one of the customers we hosted at our headquarters in New York City is the head of AI of a Fortune 50 health care and insurance company. Following demos of our new Agentic automation capabilities, including Agent Builder and Agentic Orchestration, the health care company is moving quickly to put our new Agentic capabilities to work.

I believe that with Agentic automation, the long tail of complex, unstructured tasks to automate and enhance is now in play. I'm sure you have heard announcements from software companies announcing single agents that will help search data across a CRM or submit an expense report. What differentiates UiPath are three things: First, our agents and robots work across all applications, both new and legacy, eliminating vendor lock-in for our customers. Business processes today don't run on a single system. We will continue to be the Switzerland of business applications and agents, providing equal access to third party systems. Second, is governance. Agentic Orchestration will be the conductor – or the governor – across agents, robots, people and models. Third, we will democratize access to agents by leveraging our low code platform that is already known to automation developers.

The feedback from Industry analysts has also been encouraging. IDC is already forecasting the market for agentic labor automation to grow to \$4.1 billion by 2028 from zero last year. This is on top of an RPA market, inclusive of IDP and Test Automation, that is growing at a double-digit rate thanks to the tailwinds and disruption of GenAI. The direction of the market can be seen in our current customer conversations and deals. I'm really excited that our largest deal in the quarter was for building an agentic use case delivered via our Autopilot for Everyone for a healthcare customer who has been with us since 2018. Our solution will enable such use cases to be built easier and faster as we deliver on our product roadmap.

AI has always been at the center of our platform. Over the past few years, we have integrated GenAI throughout our platform, including IDP, and we are now seeing the fruits of those efforts. With the support of their CIO, Volkswagen Financial Services will now standardize on the UiPath Platform across the company. They will implement our IDP products in the cloud to automate customer communication and complaint management. Autopilot also offers the potential for over 5,000 employees to increase productivity. So far, the company has realized cost savings of well over €10 million per



year and increased customer satisfaction through its online portal and financial services business.

At FORWARD, we also announced the general availability of Autopilot for Everyone, our agent with a conversational experience that enables any employee, regardless of technical ability, to complete complex tasks ranging from getting answers grounded with their own organization's data, analyzing and extracting information from documents, automating copy-paste into apps, and running automations to improve productivity.

Protiviti, a long-time customer and Platinum partner, recently expanded its usage of, and capabilities in, our technology, including Autopilot, with the express purpose of enabling their consultants to better use automation to deliver value to their customers, including numerous "as-a-service" models, and putting leading edge automation technology into the hands of their operations teams.

Our Agentic capabilities will permeate across our platform and continue to differentiate us. A great example of this is our Test Automation capabilities. In fact, our Agentic Testing offering is positioning us as a thought leader in the Test Automation industry. With the addition of Autopilot for Testing earlier this year, we greatly enhanced the AI-powered capabilities of our Test Suite. With the ability to automatically generate test cases, our offering will unlock a key market for us as we look to build upon our momentum in the Agentic automation era.

B. Braun, one of the world's leading medical technology companies and a customer since 2019, selected Test Suite for Test-Case-Creation and to aid in their SAP S/4 HANA migration. They expect to see significant cost savings from eliminating manual testing with additional improvements in employee engagement and experience. Our platform's ability to integrate automation and testing was the key differentiating factor over other competitive vendors. I have become increasingly convinced that manual testing remains a real and sizable roadblock for business agility.

I'd like to focus the remainder of my comments again on the launch of agentic automation over the next few months, our partnership with SAP and our overall partner ecosystem.

In February, we plan to unveil Agent Builder in public preview. It will be launched as a core part of UiPath Studio, offering our customers a seamless experience for both robotic and Agentic automation. Agent Builder allows users to build agents, either from



scratch in our low-code development environment, or from a pre-built template in the UiPath Agent Catalog, that work in tandem with our robots. Customers will also be able to include third-party agents in their agentic workflows if they choose.

To maximize the value of agentic workflows, we will also launch Agentic Orchestration, which empowers organizations to orchestrate their long running, complex enterprise processes across humans, robots and AI agents, and operate them with governance and at scale across systems of engagement and systems of record. Customers can orchestrate agents built either using the UiPath Agent builder platform, as well as agents built using other platforms. Using our new Agentic Orchestration capabilities customers can design, implement, monitor, operate, and optimize complex business processes through the entire process lifecycle. We are planning a public preview of Agentic Orchestration in the first quarter of fiscal 2026.

As you can see, our focus is on enterprise-grade agentic automation, where security, governance, control and compliance run throughout everything we do. For our existing Community of 3 million users, jumping in and getting started building, managing and deploying agents will be straightforward. I expect we will quickly have a large pool of developers building true agentic workflows across business-critical processes. We are also committed to reach customers that are less aware of our platform, particularly in today's sea of agentic AI marketing. To this end, we are investing in driving awareness of our capabilities and will have a growing stream of use cases that will quickly underscore our capabilities and differentiation.

Partners remain a cornerstone of our go-to-market strategy, enabling us to scale our market reach and elevating our customer success initiatives. And I am excited about our continued progress with SAP. In October, our platform was integrated into the SAP Build Process Automation solution and is now being sold as one of the SAP Solution Extensions, or Solex, delivering a seamless experience for SAP users to create, execute, and monitor automations from a single platform. This integrated solution enables true end-to-end automation across diverse IT landscapes, improved efficiency and productivity across SAP and non-SAP workloads. It also reduces long-term total cost of ownership within a supportable, governable approach that moves custom code to the 'automation layer', and faster implementations by leveraging prebuilt solution accelerators.

While partnerships take time to build pipeline together, our SAP partnership has already helped us to win new logos such as a leading data storage company based in the U.S., which needed support following their S/4 HANA transformation. They will now be



implementing UiPath to automate processes within SAP, such as their finance and supply chain functions.

In addition to helping secure new logos, our partners also support expansions. One that I would like to highlight is a deal facilitated by SAP with one of the largest U.S. oil and gas companies. The company currently has over 1,000 automations in place within their Finance and Downstream operations and have now chosen to expand further with UiPath to automate within their S/4 HANA environment.

Our GSI partners also continue to drive our growth in the market. With the support of EY, Sonic Automotive, one of the largest car dealership groups in the U.S., expanded their automation program to additional departments such as Customer Service, Shared Services, and Human Resources. They will also be expanding their usage of Document Understanding for warranty cancellation and factory invoice processes while adopting new products such as Process Mining, Communications Mining, and Test Suite for automation testing. They have seen an impressive ROI of over \$10 million in cost savings per year with expectations for further improvement.

And finally, our success is deeply rooted in our ability to serve our customers, making a customer-centric mindset more crucial than ever. While customer centricity and co-innovation remain a core pillar for us today, we are working diligently to infuse it deeper into our culture. To us, being customer centric means listening, rapidly applying feedback, co-innovating our roadmap, and building a trusted partnership. All of this in the spirit of maximizing the value our customers realize from our offerings, which we believe will translate to growth for UiPath.

To summarize, I am really excited about the enthusiasm from our customers in support of our vision and the products we have on deck to deliver on the vision. We believe that agentic automation will have a major impact on the workplace, and it is clear that it is only going to rapidly become more powerful and sophisticated. We are confident that UiPath is well positioned to bring the transformative force of AI to life in the enterprise through automation.

With that, I'll turn the call over to Ashim, who will dive more into our operational priorities and financials.

Ashim Gupta, Chief Financial Officer and Chief Operating Officer:

Thank you, Daniel. And good afternoon everyone.



Unless otherwise indicated I will be discussing results on a non-GAAP basis and all growth rates are year over year. I also want to note that since we price and sell in local currency, fluctuations in FX rates impact results.

Turning to the third quarter, ARR totaled \$1.607 billion, an increase of 17%, driven by net new ARR of \$56 million.

We ended the quarter with approximately 10,790 customers and are pleased with our focus on the quality of new logos we are acquiring such as Amplitude, AQUA Dermatology, The Hospital for Special Surgery, and Ventura Foods.

Moving on to customer metrics. Customers with \$100,000 or more in ARR increased to 2,235, while customers with \$1 million or more in ARR totaled 302.

Dollar-based gross retention of 97% continues to be best in class and our dollar-based net retention rate for the quarter was 113%. Our platform's ability to help customers obtain meaningful value with AI-powered automation continues to drive expansion opportunities. A great example is Allianz Technology, a customer since 2017. They recently implemented Communications Mining and Document Understanding to automate their Policy Renewal and New Business Request processes, and after successful implementation they will now be moving to the cloud to expand their usage and automate these processes enterprise-wide. Additionally, the UiPath platform will now be standardized across all Allianz business units as their strategic AI and automation vendor with expected productivity gains of 50% and cost reductions of 40% where AI-powered automation is implemented.

Another example of customers expanding to our end-to-end platform capabilities is a national fund for health insurance in Europe. They started working with us in 2022 to automate health insurance control processes and now with support from their CIO will be expanding to the full platform. They will first begin by implementing Process Mining to uncover further automations and support their automation backlog of over 300 processes. Following this they will be deploying Autopilot for Testers to support their IT developers and IDP for health insurance claims. They highlighted our orchestration capabilities being a key factor in providing them the ability to scale their automation program in a secure and governed environment.

Turning back to our results, revenue grew to \$355 million, an increase of 9% year-over-year.

Remaining performance obligations increased to \$1.128 billion, up 13% year-over-year.



Current RPO increased to \$718 million, up 20% year over year.

Turning to expenses.

We delivered third quarter overall gross margin of 85%, and software gross margin was 89%. For the full fiscal year 2025 we continue to expect gross margin to be approximately 85%.

Third quarter operating expenses were \$251 million.

GAAP operating loss of \$43 million included \$87 million of stock-based compensation expense.

Non-GAAP operating income was \$50 million, resulting in a third-quarter non-GAAP operating margin of 14% which benefited from our previously announced restructuring combined with our continued efforts to drive further operational efficiencies and streamline the business.

Non-GAAP net income was \$60 million, which excludes a non-recurring non-cash tax benefit of \$25 million from the release of valuation allowance on certain deferred tax assets.

Third quarter non-GAAP adjusted free cash flow was \$33 million, which was lower than our expectations due to timing of cash collections. We continue to expect fiscal year 2025 non-GAAP adjusted free cash flow to be approximately \$325 million.

As of October 31st, we had \$1.6 billion in cash, cash equivalents, and marketable securities and no debt. During the quarter, we repurchased 13.8 million shares of our Class A common stock at an average price of \$11.81 from August 1, 2024, through October 31, 2024. Since October 31st, under a 10b5-1 plan, we repurchased an additional 0.7 million shares at an average price of \$12.57 through December 4, 2024.

Before moving to guidance, I would like to share an update on a few of my priorities since taking on the additional role of COO. First, we have deepened our relationship with our partner ecosystem to help drive further alignment with our customers while also focusing on enhancing our professional services strategy to better support customer engagement and adoption. And we are working to better connect and streamline the organization to improve operational discipline and efficiency while retooling certain go-to-market functions to focus on areas with the strongest return on investment.

For the fourth quarter fiscal 2025, we expect:



- Revenue in the range of \$422 million to \$427 million.
- ARR in the range of \$1.669 billion to \$1.674 billion.
- Non-GAAP operating income of approximately \$100 million.

And, we expect the fourth quarter basic share count to be approximately 551 million shares.

Finally, we will provide guidance for the first quarter and full year fiscal 2026 when we report our fourth quarter results, but I would like to highlight that we expect typical enterprise seasonality from the fourth quarter to the first quarter in net new ARR. Lastly, with our focus on efficiency, customer centricity, and product innovation, for fiscal 2026 we believe that net new ARR dollars will stabilize, and our adjusted free cash flow growth rate will accelerate.

Thank you for joining us today and we look forward to speaking with many of you during the quarter.

With that, I will now turn the call over to the Operator.

Operator:

Thank you. We'll now be conducting a question-and-answer session. We ask you to please ask one question and one follow-up, then return to the queue. And as a reminder, please limit yourselves to one question and one follow-up, then return to the queue.

Our first question is coming from Mark Murphy from JPMorgan. Your line is now live.

Mark R. Murphy:

Thank you very much. And my congratulations on the successful execution this quarter. Daniel, I wanted to ask you, as we look around and see the agentic models that are being rolled out by Salesforce, Microsoft, HubSpot and several other companies, can you comment on whether any of that activity might drive some UiPath usage? Because I'm just wondering, as the third-party agents begin to want to take some action and they might want to command and control other applications, do you think that's going to be API-based where they can handle it or do you think that there could be some involvement with – there might be a Ui-based process and it might get – they may call on UiPath? Then I have a quick follow-up.



Daniel Dines:

Hi, Mark. This is a great question. And I think it goes into our strength. As we said in the script, we aim to be a Switzerland of agents. So, that means that we would like to orchestrate our own agents, but also agents built by other companies. And also, we said agents will be actually as good as the tools that they will have access to. And now, we want to actually collaborate with other companies building agents to offer them our tools to improve the quality of the actions that the agents can take. So, I think, in short, we focus on creating this agentic orchestration layer that can call our agents, other companies' agents, our robots, and bring humans in the loop for increased security and governance.

Mark R. Murphy:

Okay. I think I understand that. And that sounds like a very broad vision. I wanted to ask you, Ashim. I'm looking at the growth rate of your largest revenue stream, which is the maintenance and support revenue, and I noticed it accelerated both sequentially and year-over-year, and it seems to be holding on to the mid-20 types of trajectory.

So, I wondered if I could just ask you mechanically, what is it that's enabling that? That line item is really showing a lot of resiliency and stronger growth actually than the ARR line. And just in case the answer is a little bit of duration impacting the license line, can you maybe help us separate out any of that? Just wondering if you can just help us a little bit with some of the mechanics.

Ashim Gupta:

Yeah. Obviously, ASC 606 revenue recognition impacts the license line, Mark. What you see on the main line is also the benefit of just cumulative net new ARR building and the recovery of duration from earlier this year. That does help that, as you go through it. Our largest customers are growing. They're continuing to extend the contracts, and that really helps the maintenance and support stream as well.

Mark R. Murphy:

Okay. Are you able to comment on how the duration changed in this most recent quarter and how much is recovered since earlier in the year?



Ashim Gupta:

It's recovered back to somewhat normal from earlier this year, Mark, where we talked about some of the execution misses in first quarter. We feel really good about the progress as we change the incentive compensation plans and refocus the sales team.

Mark R. Murphy:

Understood. Thank you very much.

Operator:

Thank you. Next question today is coming from Raimo Lenschow from Barclays. Your line is now live.

Raimo Lenschow:

Perfect. Thank you. And Daniel, I wanted to go back to that agent model. Like, how should we think about that? Like, there's going to be the big vendors that have like the domain data or like the Salesforce or Workday or SAP, and they're going to be very broad based in terms of their orchestration. So, do you see yourself, like, working with those? But actually the real kind of push for you guys will be like on kind of more specific domain knowledge where you're playing already at the moment with insurance companies, banks, et cetera. Is that kind of the right way to think about it or there's a lot of confusion out there. So if you could help us there, that would be helpful. And I had one follow-up for Ashim.

Daniel Dines:

Yeah. Hi, Raimo. I think the right way to think of all with our approach to agentic is that the companies like Salesforce, for instance, they will build more in-application agents. They will build agents that will have intimate access to Salesforce and processes that are within the Salesforce ecosystem. But if you have one, if you have an agent that has to touch both Salesforce and Epic, and this is a real discussion that I was having recently with the CIO of one of our top healthcare provider in the US. Are you going to take the Epic data and you put it into your Salesforce? They say, no way. So, I think our sweet spot is when an agent will have to interact with multiple systems. And this is where actually our robotic automation was shining. We are known to automate moderate to complex processes that spend multiple systems, modern and legacy. I think our sweet spot for building agents will be similarly for those agents that require data and interaction with multiple system, both modern and legacy.



Raimo Lenschow:

Okay. Perfect. Thank you. And, Ashim, like, I get the message on the net new ARR and net new ARR and stabilizing next year on the growth rate side. Like, what gives you the confidence for that? Like, maybe just help us a little bit with some handholding here. Thank you.

Ashim Gupta:

Yeah. So, I think when we look at the business, we're really pleased with the progress we've made on the execution front and the momentum that we have leaving forward on agentic. As we've commented with some of the Fortune 50 customers, in addition to just company-wide, Raimo, that feels very good. We're executing, honestly, is improving around all aspects from just the rigor that we have with our sales pipeline management and the visibility that we see. So, we feel confident making that statement just as the business continues to progress.

Raimo Lenschow:

Okay. Perfect. Thank you. Well done.

Operator:

Thank you. Next question is coming from Jake Roberge from William Blair. Your line is now live.

Jake Roberge:

Hey, thanks for taking the questions. Sounds like execution has been improving recently. Can you just talk about the go-to-market changes that you've been able to make thus far? And then, what do you feel is left within the go-to-market in order to get things back to kind of steady execution that we used to see?

Daniel Dines:

Yeah. Hi, Jake. Look, we are pleased with how the improvements that we were driven in the go-to-market are evolving. As we said in the last calls, we focused a lot into simplifications, into our go-to-market model, and into eliminating silos, bringing more functions into the regions closer to the customers. We have created recently a customer centricity office that help our top executive being closer to the customers. So, look, we have a lot of things to continue to do, but I am pleased of how the things are evolving for now.



Jake Roberge:

Okay. Very helpful. And then, can you talk about just the feedback that you've gotten from customers coming out of your FORWARD conference and maybe the pipeline that you were able to generate there? And what you're hearing from customers just around the agentic use cases that they might be building on their platform, just given that you had so many customers and partners there in FORWARD recently?

Daniel Dines:

Yeah. Let me start on the sentiment, and I let Ashim comment more on the pipe generation. Look, it's been a very transformational FORWARD for us. I think it was the most consequential FORWARD since FORWARD 3, when we have announced our platform offering. There is an extreme interest on our agentic offering, and it's from customers across the world.

Actually, prior to FORWARD, I was traveling almost six weeks across the world, and I basically tested what we are doing when I was messaging about agentic with various customers in big banks in Japan and the Middle East, healthcare companies in US and Europe. And frankly, they listen and they are very interested. Like we said in the script, even like such a huge healthcare customers of us, it's hearing the pitch. They said, next Monday, we want to start the POC with you guys. And this new messaging, I think it's reciprocating our discussions with customers. It's easier to get the attention of the C-level executives with this messaging. And are seeing a clear way to expand into the use cases that we are capable of automating so far.

Ashim Gupta:

Yeah. And then, in terms of the pipeline, obviously we don't really comment in terms of quantification. But qualitatively, what Daniel has talked about in terms of the interest from the customers, that bolsters the pipeline in our minds in terms of just giving us more conviction on a lot of the opportunities ahead of us. The second piece, if you heard in Daniel's script, is just the number of registrants or registrations on our private previews and the excitement that's building on the public preview. Those are all very encouraging for us.

Jake Roberge:

Great. Thanks for taking the questions, and congrats on the steady execution.



Operator:

Thank you. Next question is coming from Bryan Bergin from TD Cowen. Your line is now live.

Bryan C. Bergin:

Hi, guys. Thank you. A follow-up question first on the changes that you do still want to make internally it sounds like you're pleased with the execution thus far. But specifically, what else do you have left to do?

Ashim Gupta:

I think the majority of the changes actually, Bryan, like on the streamlining are complete. Where we're really focused now is here to really prioritize our dollars where you have the highest return on investment, especially as we're planning for next year. So, our view is to invest within the field, invest in the functions that are closest to the customers, and continue to find efficiencies in the functions that are further away from the customer and the spend that is further away. That combination, for us, feels very good.

The second piece is just actually on a positive note, enabling the sales team with agentic and the messaging coming out of FORWARD, there's a lot of energy around it. And making sure that we have a really good sales enablement function that will drive that messaging and enablement for the sales team is also a priority for us.

Bryan C. Bergin:

Okay. Okay. I appreciate that. And then, US government is a notable customer for you across many agencies. Just given all the talk about improved government efficiency, how are you thinking about that market opportunity going forward?

Daniel Dines:

Yeah. I think, look, as we said, the opportunities is great in front of us. We are seeing internally such a positive energy that we have not seen in a long time in the company. I am seeing in in the product and an engineering kind of the fastest pace of innovation that I think we've seen from the beginning of the inception of our company.



Ashim Gupta:

And, Bryan, on federal specifically, I think they respond very well to the innovation. I think we talked about functions like the IRS, et cetera. We see good momentum there. I think an uncertainty election cycle obviously keeps there, but actually efficiency for us is a positive sign, right? Going and driving and making sure there is more automation, there is higher efficiency. We feel like that is an area that we can continue to partner very well with the government. And that's so far been the response that we've gotten from our government customers.

Bryan C. Bergin:

Okay. Excellent. Thanks.

Operator:

Thank you. Next question is coming from Matthew Hedberg from RBC Capital Markets. Your line is now live.

Michael Richards:

Hey, guys. This is Mike Richards, on for Matt. Thanks for taking the question. It was great to hear about the improved execution, but I was wondering maybe how the demand environment has changed since last quarter and if you've noted any difference in buying patterns post-election. And then maybe also, like, do you guys usually see a budget flush year end? And at the new agent vision, could you kind of tap into those GenAI project dollars that maybe you weren't seeing before?

Daniel Dines:

I'd say that the demand environment is kind of stable, and it continues to be as we've seen in the past two quarters, we are seeing no sign of degrading or improvement.

Ashim Gupta:

And then, in terms of the budget flush, I think we've provided our guidance the way we see. The teams are always out executing and working to that. We don't look for quick wins. We continue to look for long-term sustainable growth from our customers. But, of course, our sales team is well-equipped to take advantage of any opportunity that would arise for us.



Michael Richards:

Thanks, guys.

Operator:

Thank you. Next question today is coming from Sanjit Singh from Morgan Stanley. Your line is now live.

Sanjit K. Singh:

Thank you for taking the questions. Ashim, thank you so much for providing at least some of that color on fiscal year 2026. I'd love to get a better understanding of what you mean by stabilize, what you think of stabilizing on sort of a dollars-added basis. I think you guys had at around \$56 million in net new ARR this year. Are you thinking of that from a like of a year-over-year growth perspective? Just a clarification on that front.

Ashim Gupta:

I think we were very intentional just as we were looking at how to think about it. We've gotten a lot of questions on two basis. One, we pointed out the seasonality point as we were looking at the modeling, particularly for net new ARR. The second piece, though is there has been a lot of questions on the trajectory of the company with the changes that we've made, Sanjit, so we feel very good that if you look at kind of the trend, the stabilization is a very positive signal reflecting just the improved execution and the changes that Daniel and the team are driving in the business.

Sanjit K. Singh:

Yeah. And to that point on the better execution, it's two quarters in a row now where you've set guide and exceeded those targets. I'm not so much about like necessarily guidance, but with the improved execution, if you got, let's say, a better spending environment or to the extent that the commercial market starts to come back online, how much do you think that would be a tailwind to your ARR growth overall?

Ashim Gupta:

Daniel commented on the macroeconomic environment being stable versus the last couple of quarters, and we guide to what's in front of us. So, any positive movements that are out there in the market, we feel like we could take advantage of that. But it's a variable environment. So, it has to, on balance, have those tailwinds. What I would also say, though, Sanjit, is we are excited about how we're positioned on the agentic wave as



well. And I think, in addition to the market environment, our product innovation and our execution also allows us to have confidence as we move into the following years here.

Sanjit K. Singh:

Understood. Very clear. Thank you, Ashim.

Operator:

Thank you. Next question is coming from Terry Tillman from Truist Securities. Your line is now live.

Terry Tillman:

Yeah. Good afternoon, everyone. Thanks for taking my questions. It's one question. It's three parts. So, SolEx is not a common thing for ISPs. So, to capture that, just adjust the closeness you have with the company and the opportunity. But I'm curious about SolEx, first, in terms of the timing on how this could kind of go through their ecosystem. Because earlier I heard, I think, Ashim, you talked about sales enablement. There's going to be sales enablement around this. I know you've been working with them, but SolEx, in terms of making its way through that very vast distribution channel.

Second question I wanted to ask is with Test Suite. Now, this is a multi-year kind of S/4HANA upgrade cycle. How impactful is that starting to be and predictable each quarter?

And then the third thing, and I can repeat all these, if you don't write them down, SolEx deals, I assume it's a little bit different on rev rec as opposed to if it was just on your paper. So, anything you could share about how those deals would look? Thank you.

Daniel Dines:

Yeah. Let me take the first one, then I'll ask Ashim to comment on rev rec. We are excited about the SolEx deal. It's taking a lot of time to put it in place, a lot of product effort. We are now really an integral part of the SAP solution and our reach is much bigger. And I think our credibility with enterprise customers, it's even more increasing. But, as any partnership, this is the early innings. We are seeing improvements in the pipe creation. We mentioned some of the deals that were influenced by this. But it's just really a new partnership. But I am quite bullish over the years of what it can happen.

In terms of the Test Suite, it's not only for SAP migration, but for other large business application platforms, we're seeing really tremendous momentum at this time. And we



are, I think, one of the thought leader into agentic testing and bringing the really more GenAI in into testing. Eventually, really going as far as to be capable of automating even exploratory testing, which can be a huge step into automating manual testing. So, I'm seeing really good momentum overall on the testing side.

Ashim Gupta:

And I think just to put one point on the enablement, we've been working with SAP now for a while because the partnership has started and it continued to deepen. So, I think the sales enablement piece, we feel very good about, just that we've had experience on it. In terms of revenue recognition, it really is going to follow our normal ASC 606 accounting practices. There's nothing unique about it. The portion of the software that we sell through SolEx will go through our normal ARR accounting and normal revenue recognition policies under ASC 606.

Terry Tillman:

Thank you.

Operator:

Thank you. Next question today is coming from Kirk Materne from Evercore ISI. Your line is now live.

Chirag Ved:

Hey, thank you. This is Chirag, on for Kirk. So, when you're thinking through your customer renewals and expansion over the last couple of quarters and looking ahead to next quarter, are there any recurring themes or products that you would highlight as seeing greater traction and contributing to a greater part of your net new ARR recently that might be different from before?

Ashim Gupta:

I wouldn't say it's very different before, but I would say what we see, Chirag, is continued adoption of our growth products like IDP, of our AI products like IDP, Autopilot, et cetera. The largest deal in the quarter had agentic flavors to it and had Autopilot for Everyone as a piece of it. So, you really see expansions happening where our overall platform is positioned well, and that continues to be a priority for the company. The second piece, Daniel talked about testing. We are seeing continued momentum on the attractiveness of our test automation platform and factors into our expansion.



Chirag Ved:

Got it. And one more on the financials front. You delivered a strong margin beat this past quarter. You called out the restructuring, but what drove the beat? And do you believe these same factors that help drive upside in Q4, given that Q4 has historically been your strongest margin quarter?

Ashim Gupta:

Yeah. Look, Q4, like, my guide for Q4 is our guide. We factored everything in. What we feel very good about is the execution and the discipline that the teams are putting around driving efficiency and the pace at which we're able to streamline the company. And those results showed in third quarter. And as we talked about for next year, we also talked about reaccelerating our free cash flow growth rate. So, all in all, we feel very good about the trajectory and profitability for the company.

Chirag Ved:

All right. Thank you so much.

Operator:

Thank you. Next question today is coming from Kingsley Crane from Canaccord Genuity. Your line is now live.

Kingsley Crane:

Hey, thanks. So, within your cloud business, could you provide a directional comment on the mix of hybrid cloud into your SaaS?

Ashim Gupta:

We don't provide that on a routine basis. In terms of this, we will follow our normal cloud disclosures that we do. And that usually is in every other quarter that we discuss that. That being said, we have been very forthright that the majority of our installations are on a hybrid basis, meaning they use some level of on-prem and some level of on-the-cloud. What's encouraging is our cloud is becoming more and more adopted and attractive to our customers as it matures and as capabilities are launched in a cloud-first way.



Kingsley Crane:

Great. And so, just as a quick follow-up, I guess, like, how are you thinking about the customer's ability to leverage some of these newer capabilities like agentic AI, depending if they're deployed pure SaaS, hybrid or on-premise? Thanks.

Daniel Dines:

I think that actually our hybrid offering, it's going to contribute to our differentiator because many of the customers will still have on-prem systems, and it's going to be very helpful to have our robots deployed on the on-prem systems and provide access to those systems, to agents. And what they like to stress here is that robots can provide a very secure and precise way to access data. You can give access to an agent exactly to the data they need in order to make an informed decision. And this cannot be achieved really in any other way.

Kingsley Crane:

Thanks. That's really helpful. Appreciate it.

Operator:

Thank you. Next question is coming from Brian Schwartz from Oppenheimer. Your line is now live.

Brian Schwartz:

Yeah. Hi. Thanks for taking my question. Daniel, I know it's real early in terms of the ASPs that you're getting for these agentic automation deals and maybe it's even hard to parse out, but is it possible to compare the ASPs on these type of deals versus the other products in the suite? And I know it's early, but I'm trying to see if they skate when they scale, if they could end up being larger deals than the core products in the suite. Thanks.

Daniel Dines:

Yes. I think that they can drive really larger deals like the one that we mentioned in the script. Our larger deal this quarter was an agentic deal, delivered via our Autopilot for Everyone. And it opened up even different pricing models. With agentic, you can even price per use case basically, and it can get closer to the value that we can unlock for customers. So, I'm really positive that the ASP can be increased, driven by agents.



Brian Schwartz:

Thank you.

Operator:

Thank you. We've reached end of our question-and-answer session. I'd turn the floor back over for any further closing comments.

Daniel Dines:

Yeah. Thank you so much, guys. We are here for taking further questions in the coming days and weeks.

Operator:

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.