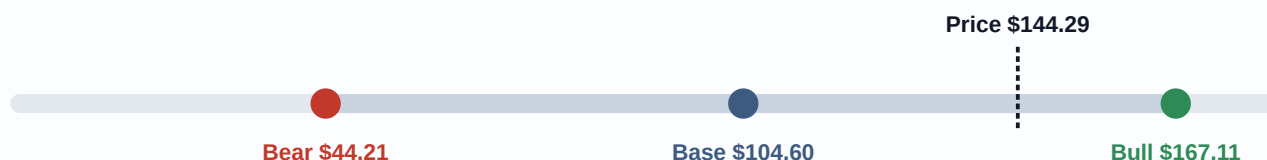


Initiated 2026-09-20 · Price \$144.29 (as of 2026-09-18 close, stockanalysis.com) · Mkt cap \$11.83bn · Technology / property-and-casualty insurance software · Model: verified (generic, full tier)

Rating: Hold — Conviction: Medium

Guidewire is the core system of record for the P&C insurance industry, and the cloud transition that consumed five years of operating losses is now visibly paying: 23% revenue growth, GAAP operating income up from \$41mm to \$150mm, a 26% operating cash flow margin, and the lowest gross ARR attrition the company has measured. The stock has nearly halved from its 52-week high because FY2027 ARR guidance of 18% constant currency is one point slower than FY2026, and because application software generally is being re-rated on AI-disruption fear. That has moved the name from obviously expensive to roughly fair with a hostile skew: the model's Base still lands 28% below the last close, but the Bull case now clears it, which was not true a quarter ago. Hold rather than Sell because the asset is durable and unlevered; Hold rather than Buy because you have to underwrite the bull driver set to justify the price.

MODEL VALUE RANGE VS PRICE



Business overview

Guidewire sells InsuranceSuite — the policy administration, billing and claims systems a property-and-casualty carrier runs its book on — plus data, analytics and digital products layered on top, now delivered as Guidewire Cloud. FY2026 revenue of \$1,475mm split roughly 66% subscription and support (\$971mm, +33%), 16% term license (\$235mm, -7% as customers convert to cloud) and 18% services (\$270mm, +23%). Earnings turn on three things: net new ARR (\$1,242mm at 2026-07-31, +19% constant currency), cloud subscription gross margin as multi-tenant scale arrives (74% GAAP in Q4, +6pp year over year), and stock-based compensation, which at \$182mm was 12.3% of revenue — the entire distance between a 24% non-GAAP operating margin and a 10% GAAP one.

Bull case

- A quarter of the growth is already contracted.** Fully ramped ARR was \$1,578mm against reported ARR of \$1,242mm — \$336mm, 27% of the base, signed and stepping up on schedule. That makes FY2027's guided 18% closer to a floor than a hope. *Model: rev_growth*
- Cloud gross margin has further to run.** Subscription and support gross margin hit 74% GAAP in Q4 FY2026, up six points year over year; total gross margin 64%. FY2027 guidance implies a 24.1% non-GAAP operating margin at the midpoint, and incremental margin on a multi-tenant platform that is done being built is very high. *Model: ebitda_margin*
- Retention is close to annuity-grade.** Gross ARR attrition ran below 1.5% overall and below 1% in core systems — the lowest since the company began measuring it. Replacing a policy administration system is a multi-year, board-level program; the switching cost is the moat. *Model: rev_growth, nwc_pct_rev*

4. **The balance sheet lets it buy its own de-rating.** Net cash: \$753mm of cash and short-term investments against \$678mm carrying value of 1.25% converts struck at \$244.65, not due until November 2029. \$606mm repurchased in FY2026; FY2027 operating cash flow guided to \$445–465mm. *Model: FY0 net cash (market.cash , credit.debt) enters value directly; the repurchases themselves (share_change , capital_return_pct) move EPS only*

Bear case

- 1. **The base case does not reach the price.** Base midpoint \$104.60 against a \$144.29 close, –28%. Only the Bull driver set — 15–18% revenue growth for five years and GAAP EBITDA margin reaching 28% — values the equity above the current price, and it clears it by just 16%. *Model: exit_ev_ebitda, wacc*
- 2. **Growth is decelerating and the flattering tailwind is being withdrawn.** FY2027 ARR guided to 18% constant currency from 19%, with management saying attrition normalizes from unusually low FY2026 levels. The one-point step is small; losing a record-low-churn tailwind while guiding down is the part that matters. *Model: rev_growth*
- 3. **The exposure is the multiple, not the revenue line.** At ~9.5x ARR and 66x FY2026 GAAP EBITDA the valuation does nearly all the work; Verisk trades near 16x EV/EBITDA and Sapiens 13x. Shares went \$255.89 to \$144.29 with the revenue trajectory intact — the definition of multiple risk. *Model: exit_ev_ebitda, terminal_growth*
- 4. **Margin leverage now has to do the work the multiple used to do.** Base needs GAAP EBITDA margin to double, 12.1% to 23.5%, over five years — mostly by taking SBC from 12.3% of revenue toward 8%. If growth slows, retention grants rise rather than fall and that path stalls; the Bear case, which holds SBC and sales intensity near current levels, is worth \$44.21. *Model: ebitda_margin*

Valuation & balance sheet

Metric (definition)	Current	Own history	Peers	Source, as-of
EV / ARR (EV \$11.75bn ÷ FY2026 ending ARR \$1,242mm)	9.5x	~16.8x at the 52-week high of \$255.89 (est., same ARR)	n/a (unverified — Duck Creek private, Sapiens does not disclose ARR)	q4fy26 + quote, 2026-09-18
EV / forward revenue (FY2027 guidance midpoint \$1,717mm)	6.8x	~12.2x at the 52-week high (est.)	n/a (unverified)	q4fy26 + quote, 2026-09-18
EV / EBITDA (GAAP operating income + D&A; FY2026 \$177.8mm)	66.1x	not meaningful before FY2025 — EBITDA was negative through FY2024	VRSK ~16.0x · SPNS ~13.2x (aggregator definitions)	q4fy26; gurufocus, 2026-09-19
Rule of 40 (guided FY2027 cc ARR growth + guided non-GAAP operating margin)	42 (18 + 24)	42 in FY2026 on the same construction (19 + 23)	n/a (unverified)	q4fy26 + slides, 2026-09-03

Model-implied value range (from model-summary.json ; generic module, DCF-Gordon and DCF-exit-multiple, midpoints): Bear \$44.21 · Base \$104.60 · Bull \$167.11 per share, i.e. implied returns of –69% / –28% / +16% vs \$144.29. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* Nothing floors at zero — net cash — so the range and the scenario table are fully informative. The price sits between Base and Bull and nearer Bull: the market is paying close to the bull driver set, while Base already embeds a 14% five-year revenue CAGR, a doubling of GAAP EBITDA margin and a 20x exit multiple against Verisk's 16x. That is why this is not a Buy despite a 44% drawdown. The Base return of –28% is more bearish than the Hold: I stop short of Sell because the bear branch is a stall in contracted, sub-1.5%-churn revenue rather than an operating break, because net cash and a live buyback mean nothing can be forced, and because a five-year DCF with a fixed exit multiple under-rewards exactly this kind of retention. That tension is why conviction is Medium, not High.

Balance sheet: net cash \$75.0mm; net leverage –0.42x FY2026 EBITDA, gross 3.81x, coverage 21.0x; liquidity \$753.1mm of cash and short-term investments, no disclosed revolver. The only debt is the 1.25% converts due 2029-11-01 (carrying \$678.1mm; the October 2024 offering priced at \$600mm upsized, and the carrying value implies ~\$690mm principal after the over-allotment). Conversion price ~\$244.65, 70% above the last close, so these behave as straight, almost-free debt that has to be refinanced at market rates in 2029 if the stock does not recover. No agency rating was retrieved in this session.

Model note: Built, full tier, generic module, 0 failing error checks, no scenario CHECKS. verification.status is verified as of 2026-09-20 (LibreOffice's independent recalculation matches the Python values on every formula cell; it was not_run at initiation because the environment's LibreOffice install was missing its Calc component). No unverified inputs, no assumptions without a basis. Four conventions.

(1) `ebitda` is GAAP operating income plus D&A, so **SBC is expensed** — not the company's non-GAAP figures, which is why the EV/EBITDA above dwarfs the headline multiples quoted elsewhere. (2) Because SBC is expensed, `share_change` carries only the net diluted-count change (−0.6% in FY2026 despite \$606mm repurchased); charging gross dilution too would double-count. (3) `cash` includes short-term investments and `cost_of_debt` acts as a net-cash yield; at −\$75mm net debt the model books slightly less interest income than the company earns, understating each case a little. (4) Historicals are three fiscal years: FY2023 and earlier predate the cloud-margin inflection and would mislead the base rates. Peer multiples come from a screening service, not filings. Generator note (2026-09-24): in this module `share_change`, `capital_return_pct` and `cost_of_debt` move EPS and the net-cash path only, and `peer_pe` feeds a cross-check only; none changes the value range, so bull/bear tags no longer cite them. Scenario deltas were rebuilt after `multiple_pct` shocks were extended to the Gordon method (previously they moved only the exit-multiple half), and EPS now uses average diluted shares.

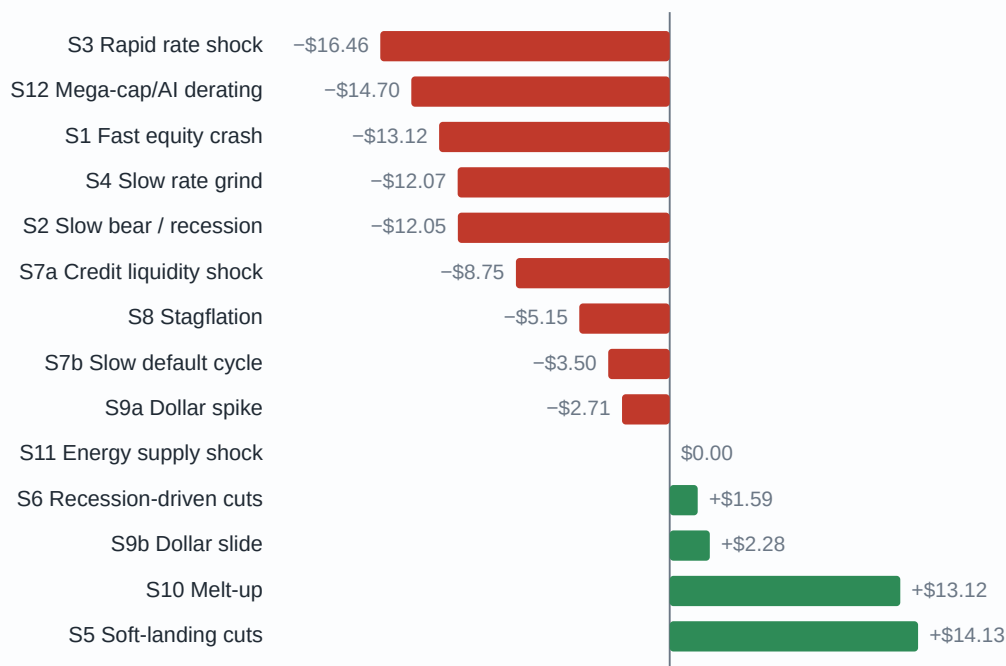
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	−	Long-duration, high-multiple asset de-rates in a liquidity event with contracted ARR untouched	Medium	−\$13.12
S2 Slow bear / recession	−	P&C premium is inelastic and replacement programs are contracted, so revenue holds better than most software; new logos and expansion slip	Medium	−\$12.05
S3 Rapid rate shock	−	Almost pure duration — no debt to reprice — partly offset by insurers' investment income funding IT budgets	High	−\$16.46
S4 Slow rate grind	−	Multi-quarter terminal-multiple compression across long-duration software, with no single repricing event	Medium	−\$12.07
S5 Soft-landing cuts	+	Best regime for the asset: discount rate falls while carrier IT spending stays intact	High	+\$14.13
S6 Recession-driven cuts	±	Two-sided and, in the model, mildly <i>positive</i> : the discount-rate relief outweighs two years of slower new business, because the revenue is contracted	Low	+\$1.59
S7a Credit liquidity shock	−	No balance-sheet channel at all — net cash, 1.25% converts not due until Nov 2029 — so this is pure risk appetite	Medium	−\$8.75
S7b Slow default cycle	−	Customers are statutorily capitalized regulated insurers, not a leveraged-default cohort; sentiment rather than credit loss	Low	−\$3.50
S8 Stagflation	±	A hard market lifts direct written premium, to which cloud pricing is partly indexed, but wage inflation hits services and R&D cost and the discount rate turns hostile	Medium	−\$5.15
S9a Dollar spike	−	Non-US ARR translated lower; the company reports ARR growth constant-currency precisely because this moves	Low	−\$2.71
S9b Dollar slide	+	Mirror-image translation tailwind	Low	+\$2.28
S10 Melt-up	+	Narrow breadth and low volatility push growth-software multiples back up on no change in fundamentals	Medium	+\$13.12
S11 Energy supply shock	0	No material transmission channel: higher loss costs feed a harder market and more premium, roughly offsetting budget pressure	—	\$0.00
S12 Mega-cap/AI derating	−	The row that already happened. Application software re-rated on fear that AI-native entrants compress vertical-software economics; it took the stock from \$255.89 toward \$144.29 with the revenue line intact, and can go further	High	−\$14.70

The ranking is the finding: the four worst rows (S3, S4, S12, S2) are all discount-rate or multiple driven, and S6 — recession with cuts — is net *positive*. Exposure here is to the cost of capital and to sentiment on vertical software, not to operations. The deltas are also small against the \$123 spread between Bear and Bull: what you underwrite is the driver set, not the macro overlay. **Currently active/on watch per the playbook:** S3 partially active; S8, S10, S11 on watch. S3 is the single largest modeled headwind for this name; S10 is where it would run hardest.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: FY2027 ARR growth is guided or reported above the 18% constant-currency bar; or gross attrition holds below 1.5% through the "normalization" management flagged while subscription gross margin clears the high-70s — the bull driver set becoming the base one. A further de-rating with the ARR trajectory intact would do it arithmetically. **Downgrades if:** FY2027 ARR guidance is cut at any quarter; or gross attrition rises above roughly 3%; or subscription gross margin expansion stalls below ~75%; or an AI-native competitor is confirmed to have displaced Guidewire at a tier-1 carrier's core system.

Watch items

- **W1:** Q1 FY2027 ARR and attrition — gross ARR attrition stays under ~2% as "normalization" arrives — quarterly release and 10-Q — expected early December 2026 — *Model: rev_growth*
- **W2:** Subscription and support GAAP gross margin — holds at or above the 74% reached in Q4 FY2026 and keeps climbing — quarterly release — *Model: ebitda_margin*
- **W3:** SBC as a share of revenue — must fall below FY2026's 12.3% for the Base margin path to hold — quarterly 10-Q cash flow statement — *Model: ebitda_margin, share_change*
- **W4:** Buyback pace against cash — \$606mm repurchased in FY2026 out of \$378mm of FCF drew cash from \$1,149mm to \$753mm ahead of the 2029 converts — quarterly 10-Q — *Model: capital_return_pct, share_change*

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