

Initiated 2026-09-26 · Price \$325.57 (as of 2026-09-25 close, stockanalysis.com) · Mkt cap \$13.33bn · Technology / public-sector application software · Model: verified

Rating: Hold — Conviction: Low

Tyler is the dominant US local-government software vendor. SaaS revenue has grown 20%+ for 22 straight quarters. The stock is down ~38% in a year on fears that AI lets governments build or buy cheaper tools. That de-rating has taken the price close to the base case: it is now 27.8x GAAP EBITDA, after SBC, against total growth of ~8–10%. It is no longer expensive enough to sell, but the base case still sits below the price. Conviction is Low because the gap between bear and bull is wide, and the AI question will not be settled by the next two quarters.

MODEL VALUE RANGE VS PRICE



Business overview

Tyler sells ERP, courts and justice, public safety, property tax and appraisal, and payments software to US counties, cities, schools and states. Q2 2026 revenue was \$645.1mm:

- subscriptions \$453.7mm (70%), split between SaaS (\$230.6mm, +21.7%) and transactions (\$223.1mm, +3.5%, or +9.9% excluding the terminated low-margin Texas payments contract);
- maintenance \$105.8mm (16%, -5.6% as on-premise clients move to the cloud);
- services \$63.2mm (10%);
- other \$22.4mm.

Three things drive earnings: how fast the on-premise base converts to SaaS, payments volume, and whether SBC (\$151mm in FY2025, +23%) grows slower than revenue.

Competition

In ERP, Tyler competes with Workday Government Cloud, Oracle Fusion, OpenGov, Infor and CentralSquare. In public safety, CentralSquare has 359 projects in Civic IQ's procurement database (January 2026). Tyler says rivals in public safety are still in "lift and shift" mode (Q2 2026 call). Competitive pressure would show up first in new-logo SaaS bookings and payments pricing, not in the installed base: only 7% of courts clients remain on legacy systems. The closest listed comparable is Roper, a vertical-software aggregator, at 14.3x EV/EBITDA. Blackbaud trades at 11.4x on depressed sentiment. Guidewire, at 72.7x, is distorted by thin GAAP EBITDA (stockanalysis, 2026-09-25).

Bull case

- 1. The cloud flip compounds on contracted revenue.** SaaS grew 21.7% in Q2 2026, and SaaS and total bookings both set records. New SaaS ACV grew 22%, built on a high volume of mid-sized deals rather than a few mega-contracts. Plays out if the company reaches its goal of moving 85% of the 2023 maintenance base to cloud by 2030 and the market keeps paying today's multiple. *Model: rev_growth, exit_ev_ebitda*
- 2. Margin scales with the SaaS mix.** GAAP EBITDA margin has been stuck at 20–22% for five years. Hosting efficiencies and the ~30% developer-productivity gain management cites from AI could lift it toward 29%. Plays out if the 2026 guide of ~100bp organic margin expansion is repeated. *Model: ebitda_margin*
- 3. Payments and AI add-ons widen revenue per client.** Transactions grew ~10% excluding Texas. Q2 included a \$10mm-ARR vehicle-titling deal, and AI add-ons are expected to contribute from H2 2027. Plays out if AI bundles price as uplifts rather than being given away as "table stakes". *Model: rev_growth*

Bear case

- 1. AI substitution caps growth and the multiple.** LLMs may let agencies build or buy cheaper tools. Plays out if new-logo SaaS bookings slow and the multiple converges on Roper's ~14x. *Model: rev_growth, ebitda_margin, exit_ev_ebitda, wacc*
- 2. SBC is most of the gap between the two margins.** Non-GAAP operating margin is 25.7%, while GAAP EBITDA margin is ~20%. SBC was 6.5% of revenue in FY2025 and \$43.7mm in Q2 2026. Buybacks absorb it: \$947mm TTM, partly funded by a \$1.4bn convertible. Plays out if SBC keeps outgrowing revenue. *Model: ebitda_margin*
- 3. Growth decelerates as the flip completes.** Revenue growth has slowed from a 10% FY2021–FY2025 CAGR to 8.4% in H1 2026, of which ~2 points is acquired. Adjusted net income rose less than 1% in Q2 2026. Plays out if maintenance runs off faster than SaaS replaces it. *Model: rev_growth*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, aggregator (TTM, narrower EBITDA)	30.1x	44.2x (FY2025) – 86.6x (FY2021), FY-end	Roper 14.3x · Blackbaud 11.4x · Guidewire 72.7x	stockanalysis.com, 2026-09-25
EV/EBITDA, model basis (EV \$14.08bn incl. convertible, no leases / FY2025 GAAP EBITDA \$506.3mm after SBC)	27.8x	n/a (not restated)	n/a (peers not restated)	model-inputs.json
EV/FCF (TTM FCF, before SBC)	19.4x	30.2x (FY2025) – 68.8x (FY2021)	Roper 17.7x · Blackbaud 9.3x · Guidewire 31.4x	stockanalysis.com, 2026-09-25
Forward P/E (adjusted EPS)	22.7x	n/a	Roper 15.2x · Blackbaud 7.7x · Guidewire 34.8x	stockanalysis.com, 2026-09-25

Rule of 40: ~9.6% guided revenue growth plus a 26–28% guided FCF margin (before SBC) comes to ~36, or ~30 with SBC deducted.

Model-implied value range (from `model-summary.json`; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$151.86 · Base \$297.18 · Bull \$440.16 per share, i.e. implied returns of –53.4% / –8.7% / +35.2% vs \$325.57. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits just above the base case and well below the bull case: the market pays for the flip, not for AI monetisation. That is why this is a Hold, not a Sell, despite a negative base return.

Re-rating. The two base-case methods differ by 39%:

- Exit-multiple method: \$345.43 (+6%).** It uses 22x Year-5 EBITDA, a ~21% de-rating from 27.8x.
- Gordon method: \$248.92.** At a 9.4% WACC and 3.5% terminal growth it implies ~14.9x Year-5 EBITDA (est., backed out from the two methods), a ~46% de-rating to Roper's level.

Tail, quantified. The bear case is a plateau, so a harsher case was run outside the committed model: revenue +7%, +3%, +1%, then flat; GAAP EBITDA margin 20% flat; NWC −14% of revenue; 12x exit; 11.4% WACC; 2% terminal growth. That gives **\$99.92 (−69%)**.

Balance sheet: net leverage 0.87x FY2025 GAAP EBITDA (net debt \$438.6mm); coverage not meaningful, because net interest is *income* (\$19–21mm guided for 2026: the convertible pays 0.50% while ~\$970mm of cash earns money-market rates). Liquidity: \$970.1mm cash and short-term investments. Nearest material maturity: the \$1.4bn 0.50% convertible notes due July 2031, effective conversion price \$655.77 after capped calls. The 2026 notes (\$599.7mm) were repaid. Ratings: n/a (unverified).

Model note:

- Tier **full**, status **built**, verification **verified** (LibreOffice recalculation matched all 3,207 formula cells).
- No unverified inputs and no assumptions without basis. The 21% tax rate is an estimate. Scenario consistency is **OK** on all 14 rows.
- EBITDA is GAAP, after SBC, and includes intangibles amortization in D&A. Model FCF (base Y1 \$506mm) therefore sits below reported FCF (\$714mm TTM, which adds back SBC). M&A spend (For the Record, \$212.7mm in April 2026) is not in model FCF.
- Tyler gives only non-GAAP EPS guidance (\$12.95–13.20). Base Y1 GAAP EPS of \$8.16 compares with H1 2026 GAAP EPS of \$4.17, which includes a \$25mm equity-investment gain.
- Shares: Q2 diluted weighted average (41.9mm), slightly above the post-buyback 40.95mm basic count.

Scenario stress test

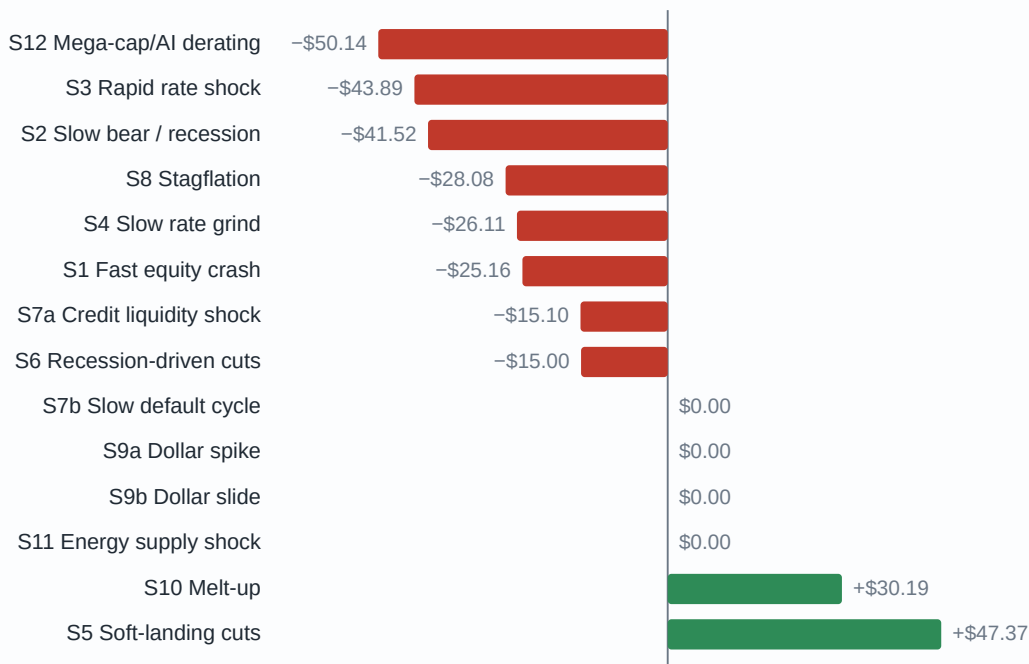
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	−	A ~28x software multiple de-rates in a liquidity sell-off; no operating channel over weeks	Med	−\$25.16
S2 Slow bear / recession	−	Local-government budgets follow property and sales tax with a 12–18 month lag; transaction volumes and new deals slow; multiple compresses. Much smaller than Base – Bear (\$145.32) on purpose: transitory, while the bear case is a permanent AI-driven slowdown	High	−\$41.52
S3 Rapid rate shock	−	Long-duration equity re-prices against a higher risk-free rate; the convertible is fixed at 0.50% to 2031	High	−\$43.89
S4 Slow rate grind	−	Same channel, grinding	Med	−\$26.11
S5 Soft-landing cuts	+	Lower discount rate; government demand unaffected	High	+\$47.37
S6 Recession-driven cuts	−	Lagged budget squeeze outweighs the lower discount rate	Low	−\$15.00
S7a Credit liquidity shock	−	Forced selling hits premium software; no liquidity channel with debt termed out to 2031	Low	−\$15.10
S7b Slow default cycle	0	No material effect, not modeled: government customers don't default in a corporate credit cycle	—	\$0.00
S8 Stagflation	−	Higher discount rate; wage and hosting inflation against multi-year contracts that reprice slowly	Med	−\$28.08
S9a Dollar spike	0	No material effect, not modeled: revenue is almost entirely US	—	\$0.00
S9b Dollar slide	0	No material effect, not modeled: revenue is almost entirely US	—	\$0.00
S10 Melt-up	+	Momentum rotates back into de-rated quality software	Med	+\$30.19
S11 Energy supply shock	0	No material effect, not modeled: no energy input of note, and government budgets aren't directly exposed	—	\$0.00
S12 Mega-cap/AI derating	−	An AI unwind that re-prices application software hits the multiple; the stock's 38% fall shows this channel is live	High	−\$50.14

Currently active/on watch per the playbook:

- `state.md` lists S3 as partially active. The macro log records all three legs crossed on 2026-09-24/25 (10Y 5.17%).
- S8, S10 and S11 are on watch. S10 is this name's main upside row after S5.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if:

- New SaaS ACV growth holds above 20% through 2027 guidance while GAAP operating margin expands at least 100bp a year; or
- The stock falls toward ~22x model-basis EBITDA with bookings intact.

Downgrades if:

- SaaS revenue growth drops below 18%, ending the 20%+ streak; or
- New SaaS ACV turns negative; or
- The 2027 guide implies total organic growth below 6%.

Watch items

- **W1:** Q3 2026 SaaS revenue growth and new SaaS ACV against +21.7% and +22% in Q2. Source: Q3 2026 release (late October 2026). *Model: rev_growth*
- **W2:** Q3 2026 non-GAAP operating margin against 25.7% in Q2, and SBC growth against revenue growth. Source: Q3 2026 release. *Model: ebitda_margin*
- **W3:** Transaction revenue growth ex-Texas against +9.9% in Q2. Source: Q3 2026 release. *Model: rev_growth*
- **W4:** 2027 guidance (total revenue, margin expansion, first AI revenue). Source: Q4 2026 release (February 2027). *Model: rev_growth, ebitda_margin*

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.