

## NEW RISK ALERT: (GWRE)

# Guidewire Expects Lumpier Revenue Recognition, Nonstandard Contracts

Latest 10-Q suggests revenue recognition may be inconsistent as SaaS firm's customers migrate to subscriptions.

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*This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.*

## Guidewire Warns Support Revenue May be Rocky

Guidewire, a provider of SaaS solutions for property and casualty insurers, is in the midst of transitioning customers away from licenses. Though a subscription model will ultimately result in more predictable revenue recognition, the company warned of uncertainty along the way in its Q2 2021 [10-Q](#), especially when it comes to support revenue:

*"As customers enter into a subscription agreement to migrate from an existing term license agreement, **the timing and amount of revenue recognized** will be impacted by allocations of the total contract value between the license, subscription, and support performance obligations."*

## License Revenue Deviates From Year Prior

The growth in term license revenue is slowing due to the migration. However, in addition to potentially lumpy support revenue recognition, investors should also be aware that Guidewire is offering nonstandard term license renewal contracts:

*"Included in these amounts is the impact of term license contracts with an initial term of greater than two years or a renewal term of greater than one year. **The impact on term license revenue from contracts that deviated from our standard contract durations was \$4.2 million** (in the quarter)."*

The migration, which also requires significant investment, is also playing out in Guidewire's gross margins, which decreased 49%. In addition to lower subscription and support gross

margins due to increased cloud investments, Guidewire reveals the impact of nonstandard license contracts:

*“Gross profit was impacted by an increase in **license revenue resulting from a large multi-year term license renewal** and **new multi-year term license arrangements**, partially offset by continued investments in cloud operations and decreases in professional services revenue driven by increased investments in cloud migration and implementation engagements, contracts with reduced billing rates, and lower billable travel.”*