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Upland Software, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

John T. McDonald
Founder, CEO & Chairman

Michael D. Hill
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*Craig-Hallum Capital Group LLC,
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Scott Randolph Berg
*Needham & Company, LLC,
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Presentation

Operator

Thank you for standing by, and welcome to the Upland Software Second Quarter 2025 Earnings Call. [Operator Instructions] The conference call will be recorded and simultaneously webcast at investor.uplandsoftware.com, and a replay will be available there for 12 months.

By now, everyone should have access to the second quarter 2025 earnings release, which was distributed today at 8:05 a.m. Central Time. If you've not received the release, it's available on Upland's website.

I'd now like to turn the call over to Jack McDonald, Chairman and CEO of Upland Software. Please go ahead, sir.

John T. McDonald

Founder, CEO & Chairman

Thank you, and welcome to our Q2 2025 earnings call. I'm joined by Mike Hill, our CFO. On today's call, I will start with a Q2 review. And following that, Mike will provide some detail on the Q2 numbers and our guidance, and then we'll open it up for Q&A. But before we get started, Mike will read the safe harbor statement.

Michael D. Hill

CFO & Treasurer

All right. Thank you, Jack. During today's call, we will include statements that are considered forward-looking within the meanings of the securities laws. A detailed discussion of the risks and uncertainties associated with such statements is contained in our periodic reports filed with the SEC.

The forward-looking statements made today are based on our views and assumptions and on information currently available to Upland management. We do not intend or undertake any duty to release publicly any updates or revisions to any forward-looking statements. On this call, Upland will refer to non-GAAP financial measures that when used in combination with GAAP results, provide Upland management with additional analytical tools to understand its operations. Upland has provided reconciliations of non-GAAP measures to the most comparable GAAP measures in our press release announcing our financial results, which are available on the Investor Relations section of our website.

Please note that we are unable to reconcile any forward-looking non-GAAP financial measures to their directly comparable GAAP financial measures because the information which is needed to complete a reconciliation is unavailable at this time without unreasonable effort. And with that, I'll turn the call back over to Jack.

John T. McDonald

Founder, CEO & Chairman

All right. Thanks, Mike. Here's the headlines. In Q2, we beat our revenue and adjusted EBITDA guidance midpoint. Significantly, we returned to positive core organic growth. So we're starting to see the benefits of our focused growth strategy zeroing in on markets where we've got the strongest competitive advantage, higher margins and largest growth opportunities. Now as a part of that, we have divested a number of assets over the last year, 18 months. And so if you look at our year-over-year declines in total and recurring revenue, those declines were primarily due to the divestitures that we've completed to streamline and to focus our business.

But the growth rate of our retained core assets has turned positive. So that's a meaningful milestone for the business. Q2 2025 adjusted EBITDA of \$13.6 million resulted in adjusted EBITDA margin of 25%. Now that's a 500 basis point increase over our adjusted EBITDA margin of 20% in Q2 of 2024. So as we have divested assets as a part of our growth strategy and focused our business, we have divested our lowest

margin assets, and now we're starting to see adjusted EBITDA margins come up as a result, and Mike will talk about this in the guidance, but we see adjusted EBITDA margins moving to north of 30% in Q3.

Free cash flow for the second quarter remained strong at \$2.7 million, and that was burdened by about \$7 million of onetime divestiture-related expenses. Those onetime divestiture-related expenses were mostly related to the termination of a legacy vendor outsourcing contract for R&D that we no longer needed now with the streamlined business and our India center of excellence being fully up and running. Terminating that contract cost us a little cash upfront, but it is one of the factors that is driving the improvement in our go-forward margins that I just referenced here in Q2 and Q3 and going forward.

We welcomed 100 new customers to Upland in the second quarter, including 12 new major customers. We also expanded relationships with 263 existing customers, 28 of which were major expansions. These new and expanded relationships continue to be well distributed across our AI-powered product portfolio. So it's been a good first half 2025 with increased core organic growth and adjusted EBITDA margin expansion. And as I say, we expect these trends to continue and accelerate through the second half of 2025.

On the product front in Q2, I'd note that we earned 68 badges in G2's Summer 2025 reports, reflecting strong performance across the product portfolio. Our AI-powered knowledge management solutions, Upland Panviva and Upland RightAnswers continued to receive multiple badges. Upland BA Insight, our AI enablement solution increased its recognition this quarter, while Upland Qvidian, our AI-powered RFP response software, also maintained strong momentum in the reports.

Upland continues to drive innovation across the portfolio with recent product enhancements. Upland InterFAX accelerated a major release focused on new PCI compliance efforts, while Upland Panviva unveiled enhancements, including Digital Orchestrator and integration with Microsoft Copilot Studio. Upland Adestra introduced AI-powered subject line updates, launched integrations with Salesforce and Shopify, and is seeing strong momentum with Adestra Audiences. Meanwhile, Upland InGenius' integration with ServiceNow launched and Upland RO Innovation announced two new AI enhancements for sales win content generation and summarization. So AI enablement, AI innovation across the product portfolio.

We're proud to be included in the 2025 Gartner Market Guide for Customer Service Knowledge Management Systems. We believe that Upland's continued recognition in this guide underscores our commitment to delivering AI-driven knowledge management solutions that empower customer service teams with fast, accurate information to improve customer experiences.

Subsequent to the end of Q2, we successfully completed the refinancing of our debt, extending the maturity to July of 2031. We had significant interest from multiple high-quality lenders, and we are pleased to be partnered with private credit direct lender, Sound Point Capital Management. After extensive lender due diligence, Sound Point validated our AI-focused products. And as a part of that refinancing transaction, we paid down an additional \$18 million of debt principal and established a new \$30 million revolving credit facility, further strengthening our balance sheet, enhancing liquidity and supporting our growth strategy.

So to recap, we've made some dramatic improvements in the business over the past 12 to 18 months. We have streamlined our product portfolio with a focus on markets where we can drive consistent growth and higher margins and profitability. We are AI enabling our product portfolio. Our adjusted EBITDA margins are expanding dramatically. We have turned the corner here in Q2 and are generating positive core organic growth. And we've strengthened our balance sheet by paying down \$242 (sic) [\$240] million of debt since the beginning of last year and now extending the maturity of our debt by 6 years through our refinancing, and we continue to lower our debt leverage and again, see that deleveraging continuing into the future, and we have boosted our liquidity with our new revolver. So with that, I am going to turn the call back over to Mike.

Michael D. Hill
CFO & Treasurer

All right. Thank you, Jack. I think Jack covered most of the points on the financials for the quarter, so I'll just make a few additional comments here. For the Q2 income statement, revenues were as expected when taking into consideration our recent divestitures.

Q2 gross margins increased from Q1 as expected as a result of higher margins realized on our ongoing product lines. Our adjusted EBITDA and EBITDA margin came in as expected with our adjusted EBITDA margin of 25%, up from 20% from the second quarter of 2024. We see adjusted EBITDA margin expanding to over 30% in the second half of 2025 for full year adjusted EBITDA margin of around 27%.

For cash flow for the second quarter of 2025, GAAP operating cash flow was \$3.3 million and free cash flow was \$2.7 million. Our Q2 operating and free cash flow included around \$7 million of onetime divestiture-related expenses without which our GAAP operating and our free cash flow would have been greater. In addition, we had some onetime leasehold improvements, capital expenditures during Q2 as a result of our corporate headquarters office move, and we expect the CapEx to reduce back down to normal levels here in Q3 and going forward. Our full year 2025 target free cash flow is around \$20 million.

On the balance sheet, at the end of Q2, we had outstanding net debt of approximately \$217 million, factoring in the approximately \$41 million of cash on our balance sheet. At the end of Q2, our gross debt was approximately \$258 million. As mentioned earlier, we successfully refinanced all of our outstanding debt on July 25. In connection with this refinancing, we paid down an additional \$18 million of outstanding debt. So after this refinancing, our total outstanding debt is \$240 million compared to the \$294 million as of the end of last year, December 31, 2024.

And now our net leverage after the refinancing is about 3.9x. Our cash balance after the refinancing is approximately \$26 million. Given the normal puts and takes of collections and payables during the remainder of Q3, we're projecting our cash balance at the end of Q3 to be around \$18 million. The cash balance plus our new \$30 million undrawn revolver gives us ample liquidity.

Now for guidance. Our core organic growth outlook is projected to improve to approximately 3% in the second half of 2025. That growth rate assumes that we continue to have no macro disruptions from the tariffs. For the quarter ending September 30, 2025, we expect reported total revenue to be between \$46.8 million and \$52.8 million, including subscription and support revenue between \$44.6 million and \$49.6 million for a decline in total revenue of 25% at the midpoint from the quarter ended September 30, 2024. Now this year-over-year decline is primarily due to divestitures completed to streamline and focus our business.

Third quarter 2025 adjusted EBITDA is expected to be between \$14.5 million and \$17.5 million, which at the midpoint is a 14% increase as compared to the quarter ended September 30, 2024. Third quarter 2025 adjusted EBITDA margin is expected to be 32% at the midpoint, which is an 1,100 basis point increase from the 21% adjusted EBITDA margin for the quarter ended September 30, 2024.

For the full year ending December 31, 2025, we expect reported total revenue to be between \$211.8 million and \$223.8 million, including subscription and support revenue between \$200 million and \$210 million, for a decline in total revenue of 21% at the midpoint from the year ended December 31, 2024. Now again, this year-over-year decline is primarily due to the divestitures completed to streamline and focus our business.

Full year 2025 adjusted EBITDA is expected to be between \$55.8 million and \$61.8 million, which at the midpoint is an increase of 6% from last year. Full year adjusted EBITDA margin is expected to be 27% at the midpoint, which is a 700 basis point increase from the 20% adjusted EBITDA margin again for last year. Additionally, I will note that we did lower the midpoint of our full year 2025 total revenue and adjusted EBITDA guidance ranges by \$700,000 as a result -- really as a result of just lower forecasted professional services revenue. So the midpoint of our subscription and support revenue guidance range remains unchanged. And with that, I'll pass the call back to Jack.

John T. McDonald
Founder, CEO & Chairman

All right. Thanks, Mike. So that really concludes the call, the prepared comments. If there are any questions, we'd be happy to take them.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Scott Berg with Needham.

Scott Randolph Berg

Needham & Company, LLC, Research Division

Both of them, I guess, kind of surround the refinancing in the quarter, and then I've got probably one quick one on the core business. On the refinance, I guess, first of all, why is private credit the right option versus maybe the other facilities that were out there? And then as you think about excess cash flow over the next, I don't know, a couple of years, do you save and reserve those for M&A? Or is the plan to probably use those to further pay down the debt?

Michael D. Hill

CFO & Treasurer

Yes. So Scott, let me take that first one. So regarding private credit, our previous credit facility was a Term Loan B financing. And given that we've paid down so much debt, again, paid down \$242 million of debt since the beginning of last year, this current term facility at \$240 million, it's just really below the size range for the TLB market -- credit market. So it made sense for us to move to private credit, and we're excited and feel great about our new partnership here with Sound Point.

John T. McDonald

Founder, CEO & Chairman

And Scott, there was -- I think a second part of your question on capital allocation. And cash flow is going to be directed toward deleveraging. We don't anticipate M&A at this point.

Scott Randolph Berg

Needham & Company, LLC, Research Division

Okay. Fair enough. And then I guess my follow-up question is on the core business here going forward. You're projecting 3% growth in the second half, which obviously is great news. But how do we think about maybe the products or part of the portfolio that is selling well today in this macro. You guys have obviously made a lot of changes in the product and the go-to-market. But what's been most exciting that you're kind of looking at in the second half?

John T. McDonald

Founder, CEO & Chairman

We've streamlined our business around knowledge and content management, and we are AI enabling our portfolio. And we are seeing opportunities in large enterprises as our products become an integral part of larger enterprise LLM implementations. So we're seeing headless knowledge management opportunities for products like Upland RightAnswers. Upland BA Insight provides core connectors to enterprise data systems, which are a necessary part of large enterprise AI implementations.

We're also seeing demand for upgrades for our RFP automation product, Qvidian, with our new AI assist capability. So we think AI can be a tailwind for the business, both in terms of a number of our products playing key roles as enabling technologies for larger enterprise AI implementations and the fact that we are improving and innovating our products across the board with AI, creating upsell and expansion opportunities within the existing customer base.

Operator

And your next question comes from the line of DJ Hynes with Canaccord.

David E. Hynes

Canaccord Genuity Corp., Research Division

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Scott hit on a couple of the topics I was going to ask about, but I want to just put a finer point on your comments around M&A. It was unclear to me if that was a near-term comment or if we look out a year from now, kind of dust has settled on the divestitures, the business is obviously in a much better spot, organically growing, nicely profitable. Is there a future in which you resume M&A activity? Or is this going to be kind of a perpetually organic growth story?

John T. McDonald

Founder, CEO & Chairman

I think it's a near-term comment. I think we are focused on driving organic growth, AI enabling the portfolio and continuing to delever here over the next year. But as you say, when the dust settles from all of that, if we see attractive opportunities, then we would look at them together with our capital partners. And it is possible that we could look at M&A. I don't see it for this year, but as you say, it's possible a year or so out once the dust settles.

David E. Hynes

Canaccord Genuity Corp., Research Division

Yes. Okay. Makes sense. And then, Jack, I'd love to just kind of hear broadly how you feel about the demand environment, kind of what you're seeing from a pipeline build perspective with some of the marketing enhancements you've made to the business?

John T. McDonald

Founder, CEO & Chairman

Demand environment seems fine. As I say, we, I think, positioned the product so that AI can be a tailwind for us. We continue an investment in Demand Gen, and we are seeing increasing -- if you look at the business over the last 5 quarters, increases in marketing sourced bookings, so both our outbound and inbound efforts. We've recently rolled out intent data to supplement the books of business that our outbound SDRs are using. And so we are optimistic about the potential for that new technology to increase our pipeline generation. So that's the basic picture as we stand here today.

David E. Hynes

Canaccord Genuity Corp., Research Division

Yes. That's great. Well, congrats on all the progress. Clearly, a cleaner and better picture emerging here.

Operator

[Operator Instructions] And your next question comes from the line of Jeffrey Van Rhee with Craig-Hallum Capital Group.

Jeffrey Van Rhee

Craig-Hallum Capital Group LLC, Research Division

A couple for you, Mike, and then one for you, Jack. Just Mike, on the free cash flow, I think the previous guide had been \$15 million, so you're bumping it up here. Just walk me through what drove the change, kind of what were the puts and takes that impacted that number?

Michael D. Hill

CFO & Treasurer

Yes, Jeff, no problem. Yes. So we had a little bit less divestiture-related expenses than we were previously forecasting, one. Two is we did sell our swaps here in Q3. And so we got a little bit more cash on the sale of those swaps in conjunction with the refi. And then three is that the cash taxes that we were investing to be around \$10 million this year are probably going to be less than \$9 million as a result of the new tax legislation in the new bill. So anyway, 3 sort of reasons why we were able to go ahead and raise the free cash flow outlook this year.

Jeffrey Van Rhee

Craig-Hallum Capital Group LLC, Research Division

Great. That's helpful. And then on the sequentials, I know you were running off the tail of the divested revenue, I believe, in Q2. How much of the revenue in Q2? What was the divested -- how do I frame that? What was the revenue from those businesses that have been divested in Q2?

Michael D. Hill
CFO & Treasurer

It was about \$4 million, \$5 million there, Jeff.

Jeffrey Van Rhee
Craig-Hallum Capital Group LLC, Research Division

Okay. Got it. Helpful. And then, Jack, just curious, back to the prior question, kind of the sales org and maybe just a little more thoughts expansion around what's working, what's not, puts and takes on the sales organization, opportunities to further enhance top line organic growth? Is it really centered around, as you were talking about top of funnel sort of sales process optimization execution? Where does product innovation fall in the sort of the priority list of opportunities to accelerate top line growth? Just ultimately, what's going to drive that top line growth acceleration?

John T. McDonald
Founder, CEO & Chairman

Yes. So we've done a ton of work over the past year, 18 months to AI enable the product portfolio, particularly those key growth products that we think are going to drive organic growth for us going forward. So I think from a product perspective, we're in pretty good shape. Now look, obviously, we're constantly innovating and moving the portfolio forward. But as it relates to near-term core organic growth, I think we've got a competitive set of products with which we can win in the marketplace and the actions we've taken to streamline and focus the business further support that.

In terms of where we need to execute and frankly, where we can execute better, again, on pipeline generation, we've made big progress, and we're seeing that in increases in marketing sourced bookings. But frankly, I think we could be doing better on our outbound efforts. So our inbound efforts are good. All the investments we made around SEO optimization and online presence helping that. I think continuing to fine-tune our outbound lead gen efforts using intent data, I think, will be important for us.

Around sales execution, the theme over the last 6 months, 9 months has been hiring in more domain expert sellers. And so we've added a significant number of new salespeople that have come out of direct competitors with a number of years of experience under their belt and really invigorating the sales force with that kind of domain expert talent. So that would be my answer.

Operator

[Audio Gap] Jack McDonald's for any closing remarks. Jack?

John T. McDonald
Founder, CEO & Chairman

Okay. Thank you very much for your questions, and we look forward to seeing you on our next earnings call. Thanks very much.

Operator

That concludes today's conference call. You may now disconnect.

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