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Upland Software, Inc.

NasdaqGM:UPLD

Earnings Call

Tuesday, March 3, 2026 4:00 PM GMT

Call Participants

EXECUTIVES

John T. McDonald
Founder, CEO, President & Chairman

Michael D. Hill
CFO & Treasurer

ANALYSTS

David E. Hynes
Canaccord Genuity Corp., Research Division

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

Scott Randolph Berg
Needham & Company, LLC, Research Division

Presentation

Operator

Thank you for standing by, and welcome to the Outland Software Fourth Quarter 202 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 fourth 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 our planned 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, President & Chairman

All right. Thank you, and welcome to our Q4 2025 earnings call. I'm joined today by Mike Hill, our CFO. On today's call, I'll start with a Q4 review. And following that, Mike will provide some detail on the Q4 numbers and our guidance. We'll then open the call up for Q&A. But before we get started, Mike will read the statement Mike.

Michael D. Hill
CFO & Treasurer

Yes. 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 unavailable at this time without unreasonable effort. And with that, I'll turn the call back over to Jack.

John T. McDonald
Founder, CEO, President & Chairman

All right. Thanks, Mike. The headlines in revenue, adjusted EBITDA and margins came in roughly as expected. Our Q4 core organic growth rate was flat due to a tough compare to Q4 2024. And which contains some lumpy additional usage volume revenue.

As we said on previous calls, our core organic growth rate will bounce around a bit from quarter-to-quarter. The general trend has been improving. Growth rates were negative 2% 3 years ago, negative 1% 2 years ago, roughly 1% positive last year, and we're targeting 1% to 2% this year. So a generally improving trend. Annual net dollar retention rate was 96% in 2025, consistent with the prior year. Q4 2025 adjusted EBITDA of $15.3 million resulted in an adjusted EBITDA margin of 31%.

Free cash flow for Q4 was $7.2 million stronger than expected due to successful collection efforts, which brought our full year 2025 free cash flow to $24.4 million. exceeding our $20 million target. We welcomed 110 new customers to Upland in Q4, including 15 new major customers.

We also expanded relationships with 199 existing customers, 27 of which were major expansions. These new and expanded relationships continue to be spread across our AI powered product portfolio. On the product front in Q4, I'd note that, we continue to perform well based on insights from customers as evidenced by earning 49 batches in G2's Winter 2026 market reports, highlighting consistent value and customer adiation for our products.

Upland was recognized as a major player in the IDC MarketScape worldwide general purpose knowledge discovery Software 2025 vendor assessment, which was published in November of 2025. And Upland believes its recognition in this report highlights the value of our AI-powered knowledge management solution up and right answers, which is driving scalable, smarter support for enterprise contact centers and help desks. Upland was recognized in the Gartner Market Guide for RFP response management applications, which was published in October of 2025.

And we believe our inclusion in that report showcases the impact of our AI-powered RFP response and proactive sales proposal creation software [indiscernible]. So our Q4 results support and illustrate improvements that we made in the business. Adjusted EBITDA margins expanded from 2024 and the first half of 2025 again, up to north of 30% in the fourth quarter. We continue to see healthy cash flow.

We are targeting continued strong cash flow in the $20 million range. for the year. And other important news, last week, we announced the fact that Sean Daniel is going to be joining Upland as our new CEO. I will be transitioning to Chairman as a part of that.

And just super happy to announce this news. Sean has a deep familiarity with our business and our operating model, and our customers and our products having been with Upland from 2013 to 2020 and previously serving as our CTO, but also serving in senior general management roles across simian chunk of our product portfolio.

Significantly, Sean brings highly relevant experience, particularly around AI initiatives that are focused on enterprise knowledge and content and data and welcome folks to take a look at some of the materials that Sean has published over the last few years on AI and the importance of solid knowledge and content and data foundations as a prerequisite for a successful enterprise AI implementations.

Sean's vision really centers on reinforcing Upland's role in enabling organizations to convert that knowledge and content and data into trusted operational intelligence to support AI and agent-driven operating models, which is obviously where the market is going.

Upland already has meaningful capabilities aligned with this vision. And Sean's priority moving forward is going to be to sharpen that execution and translate those capabilities into measurable customer and shareholder value. So Sean will be joining us. We'll be on, I think, our next call, and then we'll be running the calls going forward. But you'll have an opportunity to hear directly from Sean, his vision and for the business going forward and just super happy to welcome Sean back to Upland and to support him in executing his vision and looking forward to that. So with that, I am going to turn the call back over to Mike.

Michael D. Hill
CFO & Treasurer

All right. Thanks, Jack. I think Jack covered most of the main points in the financials for the quarter, but I'll just take a few -- make a few additional comments here.

For the Q4 income statement, revenues were as expected when taking into consideration our divestitures in Q1 and Q2 of 2025, Q4 gross margin continued to represent an increase from earlier in 2025 as expected. As a result of the higher margins realized on our ongoing product lines.

Our adjusted EBITDA and adjusted EBITDA margin came in as expected with our adjusted EBITDA margin of 31%, up from 22% and in the quarter, fourth quarter of 2024. So a big improvement there. For the fourth quarter GAAP operating cash flow was $7.3 million, and free cash flow was $7.2 million, making our free cash flow for the full year 2025 of $24.4 million. that exceeded our target free cash flow of $20 million. On the balance sheet, at the end of Q4, we had outstanding net debt of approximately $209 million factoring in the approximate $29 million of cash on our balance sheet.

And at year-end, our net debt leverage was 3.6x trailing adjusted EBITDA, which was -- which came in better than our target. Guidance for the quarter ending March 31, 2026, we expect reported total revenue to be between $47 million and $50 million, including subscription and support revenue between $44.8 million and $47.3 million for a decline in total revenue of 24% at the midpoint from the quarter ended March 31, 2025.

Just a reminder, this year-over-year decline is primarily due to the divestitures completed in Q1 and Q2 of 2025. First quarter 2020 adjusted EBITDA is expected to be between $11.9 million and $13.4 million which at the midpoint is a decline of 3% from the quarter ended March 31, 2025.

First quarter 2020 adjusted EBITDA margin is expected to be 26% at the midpoint, which is a 500 basis point increase from the 21% adjusted EBITDA margin in the year ago quarter. For the full year ending December 31, 2026, we expect reported total revenue to be between $194.2 million and $206.2 million, including subscription and support revenue between $183.6 million and $193.7 million for a decline in total revenue of 8% at the midpoint from the year ended December 31, 2025.

This year-over-year decline, as I mentioned earlier, is primarily due to divestitures that we completed in Q1 and Q2 of 2025. Full year 2026 adjusted EBITDA is expected to be between $52.6 million and $58.6 million, which at the midpoint is a decline of 4% from the year ended December 31, 2025.

And full year 2026 adjusted EBITDA margin is expected to be 28% at the midpoint, which is a 100 basis point increase from the 27% adjusted EBITDA margin that we had for 2025. And so to recap, we continue -- our product portfolio is now much more focused on -- around the KCM market knowledge and content management market.

As Jack mentioned, our core organic growth rate is in a positive multiyear uptrend from negative 2% 3 year ago to negative 1% 2 years ago to roughly positive 1% last year in 2025, and we are targeting 1% to 2% positive here for 2026. The big new customer wins during 2025 has validated our product market fit in several key markets, and those major wins validated our product AI strategies. Our adjusted EBITDA margin is significant -- is a significant multiyear expansion trend with adjusted EBITDA margins expanding from 20% in 2024 and to 27% last year in 25 to our guidance midpoint of 28% here this year in 2026.

And cash flow, as we've mentioned, remained strong as we generated over $24 million of free cash flow in 2025, and we're targeting around $20 million of free cash flow here this year in 2026. I will note that we beat our 2025 free cash flow target by over $4 million, really due to early receivables collections, which would have otherwise occurred in 2026.

So without those early collections, our 2026 free cash flow target would have actually been higher. All right. And with that, I'll turn the call back to Jack.

John T. McDonald
Founder, CEO, President & Chairman
All right. Thanks, Mike. We're ready to open the call up for Q&A. .

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of DJ Hynes with Canaccord Genuity.

David E. Hynes
Canaccord Genuity Corp., Research Division

Jack can get you on the transition. I know you're still going to be -- remain involved in the business, but I appreciate all the help over the years. Maybe we can just start on the customer metrics a bit. So look, new customer adds flat year-over-year, majors were down, expansions down year-over-year.

It's just -- it's hard to put context around those metrics, given the business is different than it was a year ago with the divestitures. So just -- like how would you characterize sales execution in the quarter?

Do you have comparable metrics for continuing ops? And I guess, most importantly, like what's the pipeline look like going into 2016? Any color there would be helpful. .

John T. McDonald
Founder, CEO, President & Chairman

Yes. We had a stronger Q3 in terms of winning sizable major deals. I would say that when we look at the pipe, so a little bit disappointed in bookings performance.

But the pipeline for this year looks decent, particularly around some of the core knowledge management growth products where we are starting to build a healthier pipeline of larger deals. But we've got to execute against it. And yes, the Q4 numbers could have come in a little bit better than they did.

David E. Hynes
Canaccord Genuity Corp., Research Division

Yes. Okay. And then, Mike, for you, just -- so EBITDA margins north of 31% in the last couple of quarters, obviously shows the earnings power of kind of the new leaner Upland.

I look at the guide for 28% margins, it's obviously a bit of a step down from where the business has been running the last couple of quarters. Can you just talk about what's contemplating that guide and why we'd see a step-down in margins from where the business has been running? .

Michael D. Hill
CFO & Treasurer

Yes, DJ. So as you may remember, typically, our EBITDA margins through the course of the calendar year, we tend to exit the year at the highest margins, and we start the year at the lowest margins, things like calendar based to payroll taxes kind of take a bigger hit in Q1 and Q2.

So that -- we've always had sort of a tilted, if you will, calendar year ramp up. And so that's mainly what we're seeing here this year again.

Operator

Your next question comes from the line of Scott Berg with Needham & Company.

Scott Randolph Berg
Needham & Company, LLC, Research Division

I hope you can hear me okay. It's quite windy warming. Two questions. First of all, Jack, why step down now? Why the change kind of leadership today, in particular, I didn't know if there's anything that drove it to change specifically? Or was it just trying to get maybe relaxed on the beach a little bit.

John T. McDonald

Founder, CEO, President & Chairman

Well, I would say the principal reason is that the business has changed, right? At one point, we were really about growth through acquisitions. And now the focus is really more on operations and advancing our AI-enabled product portfolio. And Sean is a product-centric and AI-focused CEO. .

And so I think he's the right person for the job. He knows our products and our markets and our customers. And so from an operating perspective, I think that's the kind of executive we need driving the business.

Scott Randolph Berg
Needham & Company, LLC, Research Division

Got it. Understood. And then I know you all have made significant changes to your go-to-market kind of strategy in the last couple of years and we call the divestitures and whatnot.

What do you think you are with those changes? Are we to '19, your infill execution mode? Is there any more of that to still some of the changes that need to be unveiled. Just help us understand what's everything that's going on as you enter '26 is just the right, I guess, right horsepower properly framed to really drive the growth in you all are seeing.

John T. McDonald
Founder, CEO, President & Chairman

Yes. I mean one of the things I wanted to get done before doing this transition was taking really the first phase of streamlining the business, and obviously, we sold a number of assets. We've got debt refinanced.

So really wanted to sort of clear the decks on that and hand over a business that is on firmer footing. It will be interesting to see what the next few years bring with AI and its impact on enterprise SaaS.

I think we've got some products that can do well in this environment. We've got some other products that are going to face some headwinds. But I like Sean's vision, which I think aligns closely with what Dan Doman has been driving in the business and doing a great job on. And so I think we've got a core set of products that can do well in this environment. I think there's obviously execution that needs to happen, and we're here to support those guys.

Operator

Your last question comes from the line of Jeff Van Rhee with Craig-Hallum.

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

Got a couple. First, maybe, Jack, just trying to maybe get a brief refresher on what the revenue mix is now in terms of the core capabilities. How would you bucket the revenue streams by the focus of the underlying software, the underlying capability?

Michael D. Hill
CFO & Treasurer

Well, Jeff, this is Mike. So roughly 2/3 to 3/4 of our revenue, maybe even a little bit more than that as I think about it, is really our growth products versus our specialized markets products. So -- and those growth products, most of those are AI-enabled. So really, the vast majority of our products are in this sort of knowledge and content management market area and using the AI wins as a tailwind as opposed to a headwind.

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

Yes. Got it. And Jack, when you look at AI, you mentioned it, I mean, obviously, it's front and center for all SaaS companies right now, trying to figure out winners and losers.

At a high level, when you're looking at the SaaS landscape, and obviously, we can compare to you own. But when you look at the SaaS landscape, what models do you think are defensible and what do you think will ultimately get consumed by AI?

John T. McDonald
Founder, CEO, President & Chairman

Well, I think the products that we have that are systems of record I think, are going to have the strongest moat. And there are opportunities there to become a key part and to be a key part of larger enterprise AI implementations Also, the products that we have that form an enabling layer of infrastructure that intelligence layer that Sean calls it. So you think about products like BA I. And so I look back over the past year, and it's funny, Jeff, because on the one hand, it's been a tougher market environment because of AI. But on the other hand, we landed over the past 12 months, some of the biggest bookings we've had in the past few years.

When you look at major hospitality companies that are doing 40 million customer touches a year and spending big on genic AI implementations and then bringing in products like Upland RightAnswers because they need a trusted, auditable, governable knowledge layer to train that AI on so that you get the kind of output that you need.

So that's one example of some of the work we've done with major consulting firms around global enterprise AI-driven portals for customers and for internal use. Aome of the bigger sales we've had to make your hyperscalers for their own internal use and then some of the partnerships that we've now got underway in the market with some of the brand name hyperscalers to bring the capabilities of products like Upland RightAnswers and BA I into their customer base.

So it's sort of a tale of markets in that regard. So I think those products that can get positioned is enabling tech or systems of record or -- and in some cases, systems a process will be defensible and others will not be.

Operator

That concludes our Q&A session. I will now turn the call back over to Jack McDonald.

John T. McDonald
Founder, CEO, President & Chairman

All right. Thank you so much, and we will see you on our next earnings call.

Operator
Ladies and gentlemen, that does conclude our conference call. Thank you all for joining, and you may now disconnect. Everyone, have a great day.