

Transcript of
E2open Parent Holdings, Inc.
Second Quarter 2025 Earnings Conference Call
October 09, 2024

Participants

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Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.
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Chris Quintero - Morgan Stanley
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Presentation

Operator

Greetings. Welcome to the E2open Second Quarter Fiscal Year 2025 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Dusty Buell, Head of Investor Relations. You may begin.

Dusty Buell - Head-Investor Relations, E2open Parent Holdings, Inc.

Good afternoon, everyone. At this time, I would like to welcome you all to the E2open fiscal second quarter 2025 earnings conference call. I am Dusty Buell, Head of Investor Relations here at E2open.

Today's call will include recorded comments from our Chief Executive Officer, Andrew Appel; our Chief Commercial Officer, Greg Randolph; and our Chief Financial Officer, **Marje Armstrong - Chief Financial Officer, E2open Parent Holdings, Inc.** Following those comments, we'll open the call for a live Q&A session. A replay and transcript of this call will be available on the company's Investor Relations website at investors.e2open.com. Information to access this replay is listed in today's press release, which is also available on our Investor Relations website.

Before we begin, I'd like to remind everyone that during today's call, we will be making forward-looking statements regarding future events and financial performance, including guidance for our fiscal third quarter and full year 2025. These forward-looking statements are subject to known and unknown risks and uncertainties. E2open cautions that these statements are not guarantees of future performance. We encourage you to review our most recent reports, including our 10-K or any applicable amendments, for a complete discussion of these factors and other risks that may affect the future results or market price of our stock. And finally, we are not obligating ourselves to revise our results or these forward-looking statements in light of new information or future events.

Also, during today's call, we'll refer to certain non-GAAP financial measures. Reconciliations of non-GAAP to GAAP measures and certain additional information are included in today's earnings press release, which can be viewed and downloaded from our Investor Relations website at investors.e2open.com.

And with that, we'll begin by turning the call over to our CEO, Andrew Appel.

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

Thank you, Dusty, and thanks to everyone for joining today's call. I'll begin with my thoughts on our fiscal second quarter performance as well as some broader commentary on how our return to growth work is progressing. I'll then ask Greg to update you on our commercial highlights. Finally, Marje will review our Q2 results and discuss our Q3 and full year guidance. Then, we'll open the call for questions.

Overall, our second quarter subscription revenue performance was solid and, while still down year-over-year, we saw signs of progress from the prior quarter. From my perspective, our subscription business feels like it has stabilized and is poised to improve further in the coming quarters. This represents real progress from where we were several quarters ago and gives me confidence in the operational cultural changes we continue to implement at E2open. That said, we recognize that we are on a multi-period journey to fully develop our capabilities to drive higher bookings and maximize retention. Doing so will put E2open back on a path to consistent performance and much higher revenue growth.

I am pleased to say that we recorded a number of important new subscription wins, both with existing and new logo clients during Q2. Overall, we increased quarterly subscription bookings year-over-year and sequentially, which is a positive sign of progress. Greg will share some of the highlights of these wins in a moment, but they demonstrate clearly the healthy market demand for supply chain software and the distinctive value that E2open solutions are capable of delivering. Our entire E2open team should be very proud that major companies continue to select our software to manage their mission-critical supply chain functions. Although these wins helped us increase Q2 subscription bookings compared to Q1, during the second quarter, we continued to see large deals taking longer than expected to close, mainly due to extended customer timelines, which seems to be a common issue across the software sector. Although we have closed a very high percentage of the deals that have been delayed in the past several quarters while losing very few,

our overall pace of new subscription bookings while moving in the right direction is still not at the level needed to support double-digit growth.

While our evolution to sustainable organic growth is on track and advancing according to plan, it is progressing at a slightly slower pace than we had expected. Because our win rates on deals in advanced stages of development remain high, we expect to close many delayed Q2 deals in the coming months. As we do so, we will maintain our strong focus on increasing sales team productivity and driving pipeline growth in order to accelerate our commercial momentum. During Q2, we continued to make steady progress on all aspects of the comprehensive growth plan we outlined for you on the last several earnings calls. We are building repeatable processes and stronger competencies in multiple key areas, including sales execution, pipeline management, solution delivery and partner relations. And while some work streams are taking slightly longer than we initially expected, I am very pleased that our employees have embraced a culture of delighting clients and delivering distinctive value that our clients expect and deserve.

Our strong client focus is now at the core of everything we do. Last week, E2open hosted our Connect 2024 conference with over 160 companies and 360 clients from North American region in attendance. The tone of the event, according to numerous clients that I met with, was marketably different from the past few years. Instead of focusing on service and delivery issues, for example, clients at this year's conference focused on our core vision, which is to be the best at helping the world's largest and most sophisticated companies build and run efficient and effective supply chains. During the conference, we made four concrete commitments to our clients that we will be their innovation and supply chain transformation partner, particularly in embedded AI where we announced a set of new products and solutions; we will bring the world's best capabilities in each of our application families to help clients navigate change, risk and complexity in the ever-changing global business environment as quickly and as efficiently as possible; we will deliver measurable business and client value; and most importantly, we will be client-centric versus E2open-centric, which is the essence of my core philosophy of delighting our clients. Since becoming E2open CEO, I've personally spoken to hundreds of our clients, and they have reacted very positively to our renewed focus on client satisfaction, flawless solution delivery and maximum value realization, a strategy that we think is unique in our space. Our ultimate goal is much higher organic growth, and our entire global team now understands that having a broad base of highly satisfied reference-ready clients is an essential first step in reaching this goal.

As I previously noted, improving our retention performance has been one of my top priorities since becoming E2open CEO. During Q2, we delivered a material reduction in churn from the first quarter, and we remain on track to reduce churn and increase retention further as we move through the end of the year. This increases my confidence that we are past peak quarterly churn and are continuing to make good progress on our goal of getting our client retention metrics back to their previously strong levels. The success we have achieved in this critical area is the result of the strong operational cadence we've put in place around renewals as well as a distinct shift in E2open's underlying client-centric culture. From a client relations standpoint, our number one priority is now building long-term partnerships and ensuring that our clients receive distinctive value from our solutions and innovations. This new mindset supported by broad executive engagements and a willingness to constructively and flexibly address value gaps identified by our clients as contracts come up for renewal, is enabling us to save at-risk accounts and turn them into mutually beneficial

success stories. This is positive for E2open in two respects; first, we retain the business that we worked so hard to book in the first place and, second, many clients have reacted to our new client-centric approach by opening up new dialogues on the next set of supply chain challenges that they need to solve. The underlying business logic for our new approach is simple and powerful; happy clients stay longer, buy more, and are the foundation of a sustainable growth strategy.

During Q2, our professional services organization continued to play an important role in delighting clients and supporting our growth. PS revenue for the second quarter improved modestly versus Q1, but it was still below our expectations for that business. That was partly due to the impact of delayed first half subscription bookings and attached services work, but also reflects the execution improvements our new PS leadership is still working to achieve. We continue to view professional services as a strategic component of our overall business, and Greg will talk more in detail about our PS performance in a moment.

I'm also pleased to say that as the operational changes we have made at E2open had become more ingrained, I have personally been able to allocate more time to strategic client relationships and long-term opportunity development. We now have underway a growing number of senior executive level dialogues with major new potential clients in industry segments, including consumer packaged goods, food and beverage, automotive, industrial and high tech, where we know we offer deep experience and a proven track record. We have developed some of these relationships on our own while others were facilitated by partners, including our strategic integrators. What we consistently find as we engage with our clients is that our distinctive capabilities in the areas of supply chain visibility, connectivity and orchestration resonate extremely well with these large global companies. These long-term roadmap discussions involving complex supply chain challenges are essential component of our future growth plans. While developing these opportunities will take time, in some cases, longer than we'd like, they provide a foundation for us to expand our business scope into new service areas and industries.

The changes we are implementing at E2open, combined with healthy market demand for supply chain solutions, should position us well to accelerate bookings as we move through FY 2025 and into the next fiscal year. But as Marje will describe for you, based on the longer deal cycles we have seen so far this fiscal year, we are taking a somewhat more conservative view of our likely full year bookings and revenue results. From my perspective, this change is largely a timing adjustment, reflecting delayed deals, as well as the pace of our ongoing go-to-market transformation. I remain very confident that our business is getting better and stronger every day and that our focus on client centricity and value delivery is the right strategy to return E2open to a strong organic growth.

Before I turn the call over to Greg, I want to comment on the strategic review that we announced in March. The review, which is led by our Board of Directors, is ongoing. Our Directors are committed to a careful and thorough evaluation of the options we have available to us. While we will not comment further on the review today, we look forward to sharing its outcome as soon as possible.

With that, I'll ask Greg to provide our commercial update.

Greg Randolph - Chief Commercial Officer, E2open Parent Holdings, Inc.

Thank you, Andrew. During the second quarter, our commercial organization remained focused on improving E2open's sales productivity and accelerating growth. Our performance during Q2 showed progress in key areas and gives me confidence that we are headed in the right direction. As Andrew noted, second quarter bookings were up year-over-year and sequentially. I want to commend our sales and product teams for the work they did to close deals during the quarter despite extended client timelines in many cases. Our Q2 wins demonstrate the strong market demand that we are experiencing in the broad product areas of logistics, global trade, supply chain orchestration and supplier discovery and collaboration. Our largest new deal of the second quarter was a high-value ARR cross-sell win with a leading global manufacturer of high-technology components. This long-standing client of E2open supply applications will now implement E2open's global logistics orchestration solution. This highly-strategic project will provide the client, who collaborates with an ecosystem over 20,000 global suppliers, with greatly enhanced visibility into the location and arrival times of inbound materials and the resulting impact on inventory levels and production schedules. Given the importance of this project to the client's global business, the client assessed the capabilities of a who's who list of supply chain software providers before awarding the work to E2open.

Also in the second quarter, we won a large new logo deal with a global membership-based retailer that will now implement E2open's industry-leading global trade management solution. This project will automate and streamline the client's manual global trade functions, deliver a more predictable total landed cost of imported goods and enable the client's operations to scale more efficiently with business growth. E2open competed successfully for this new logo business against some of the most well-known names in enterprise software. The client chose E2open with a high quality of our global trade application, our proprietary trade content database, which is the most complete in the industry, and the opportunity to further leverage our broad network-based suite of applications as they continue their supply chain journey.

And finally, during Q2, we won another new logo deal with a household name manufacturer and marketer of a diverse portfolio of branded personal care products. This new client will replace its manual and self-directed transportation model with connected automated workflows powered by a combination of E2open's transportation management, last-mile parcel and logistics support solutions. We won this important new business and competition with a major ERP provider based on our industry-leading TMS platform, our ability to expand the client's logistics partner network and the track record of driving material operating cost efficiencies.

Beyond these important wins and other signs of progress, our comprehensive efforts to rebuild E2open's organic growth engine are a work in progress. As I've noted before, one of our primary goals has been to combine a robust growing pipeline of sales opportunities and more team-based client and value-centric approach with a sustainably higher conversion rate. During Q2, we showed some improvement in all of these areas, however, we still have significant opportunity to further enhance our sales productivity and execution.

In order to take full advantage of the attractive software market segment that we operate in, we need to further improve our sales performance by becoming even more client-centric and value-

focused in our approach and by continuing to train and upskill our sellers to drive higher attainment. Overall, while we have added early-stage opportunities to our pipeline and must continue to do so, we need to better leverage our presales, sales and product teams to create repeatable, efficient processes to move early-stage prospects into more advanced development stages with greater velocity. This combination of higher close rates applied to a rising volume of mature-stage deals is a prerequisite to much faster growth. We are committed to driving more proactive execution in this area through the balance of the FY 2025. In addition, with our retention levels now moving in the right direction, our sales force will be able to allocate less time to supporting renewals and more time to moving leads smoothly and swiftly through our pipeline.

Turning to professional services, as Andrew noted, although we saw a small sequential improvement in PS revenue, our services business performed below potential in Q2. During the quarter, as expected, the volume of unbilled PS work declined from the Q1 peak but remained up year-over-year due to targeted work with existing clients to improve their levels of adoption, consumption and value realization of E2open solutions. Additionally, Q2 performance was impacted by the completion of several large PS engagements in Q2 combined with delays we experienced in the first half of the year in booking several large subscription deals. Such deals typically carry a higher volume of attached services work than smaller deals with shorter implementations, and their delayed start impacted our ability to meet our PS billable hour target for the quarter. As we move forward, our services business will continue its focus on flawless solution delivery and working through its existing backlog more efficiently. As we make further progress in these areas and as we add attached backlog from the closing delayed subscription deals, we expect our run rate of services revenue to improve.

Before turning the call over to Marje, I'd like to close with some comments on Connect, our North America customer conference, which Andrew and I attended last week in Orlando, along with hundreds of our clients and partners and dozens of E2open supply chain professionals. From both our vantage points, it was an outstanding event that allowed us to clearly communicate the key elements of E2open strategy, including delighting our clients, delivering flawless implementations and measurable business value, and continuing our legacy of software development and AI-based innovations. Echoing Andrew's earlier comments, I can tell you that our messaging in these areas was very well received by the many partners and clients in attendance. The event provided us with an important opportunity to articulate E2open's vision for continued product innovation and platform development, including important topics such as enhanced network differentiation, new investments we are making in embedded AI and our philosophy on how this adds value.

We also presented new capabilities we have released this year and innovations we will roll out over the next year. On the AI front, our product team specifically highlighted innovations in four areas: a universal forecasting engine in Connected Planning; business risk management for the supply environment; expanded capabilities across Connected Logistics; and continuing our leading position in global trade, leveraging embedded AI-powered innovation to transform unstructured information into actionable decision grade insights. During the Connect conference, discussions on our product roadmap took place against a backdrop of news headlines announcing unprecedented marine port closures in the United States. These closures, which threaten a significant disruption to global commerce, support our view, which is shared by major industry analysts such as Gartner, that ensuring agile supply chain remains central to Board and Executive

Team agendas around the world. These events also highlighted the fact that supply chains have become more challenging to manage and transform and help reinforce E2open's unique capability to make supply chains more resilient, more self-healing and more adaptive to our complex and volatile global business environment.

With that, I'll turn the call over to Marje.

Marje Armstrong - Chief Financial Officer, E2open Parent Holdings, Inc.

Thank you, Greg. Subscription revenue in the fiscal second quarter 2025 was 131.6 million, above the midpoint of our 129 million to 132 million guidance. Subscription revenue declined 2.3% year-over-year, which was a small improvement over the Q1 year-over-year decline, but reflected some negative impact from the first half deal delays that Andrew and Greg mentioned. Professional services and other revenue in the fiscal second quarter was 20.6 million, a year-over-year decline of 13.1%. This was below our expectations, but as Greg noted, we expect the temporary headwinds to our PS business to begin to subside in the coming quarters. Total revenue for the fiscal second quarter was 152.2 million, a decline of 4.0% over the prior-year quarter.

Turning to gross profit; in the fiscal second quarter of 2025, our non-GAAP gross profit was 105.0 million, a 4.1% decrease year-over-year. Non-GAAP gross margin was roughly flat year-over-year at 69.0% in Q2 versus 69.1% in the prior-year quarter. Q2 gross margin increased sequentially from the 67.8% in the first quarter due to slightly higher services revenue and lower costs in both our subscription and services businesses.

Turning to EBITDA; our second quarter adjusted EBITDA was 54.9 million, a 36.1% margin compared to \$56.1 million and 35.4% margin in the prior-year quarter. Year-over-year EBITDA margin improvement in Q2 was a result of our continued focus on reducing headcount costs by utilizing our successful offshore strategy, as well as finding additional efficiencies in non-client-facing activities across our G&A functions. We're also reorienting our marketing spend with a more targeted customer value-driven approach. In addition, we're systematically carrying out a defined cost reduction plan for facilities as we rationalize the office footprint inherited from past M&A and adjust to post-COVID flexible work policies and the resulting lower office utilization. We also drove year-over-year savings in Q2 related to T&E and realized some one-time employee benefit efficiencies, which led to EBITDA margins above our full year run rate.

Now turning to cash flow; adjusted operating cash flow in Q2 was negative 5.5 million and year-to-date adjusted operating cash flow was 33.6 million. As a reminder, Q2 is typically our lowest cash generation quarter due to a number of factors, including seasonality of customer collections and annual employee compensation payments. We still expect cash flow to grow materially in the second half of FY 2025 as compared to the first half as the seasonal factors normalize. We ended Q2 with \$142.2 million of cash and cash equivalents, a decline of 18.0 million from the first quarter due to the seasonal factors that I just mentioned. Our Q2 cash balance increased 30.4 million year-over-year, demonstrating the strong cash generation capability of our business. This completes my remarks on our fiscal Q2 financial results.

At this point, I'd like to turn to our third fiscal quarter and full year guidance discussion. For the third fiscal quarter of FY 2025, we expect subscription revenue in the range of 130 million to 133 million, representing a decline of 2.1% to an increase of 0.2% as compared to the prior-year fiscal third quarter. Our Q3 subscription revenue guidance incorporates the impact of deal delays that we experienced during the first half of FY 2025 and is consistent with a more conservative outlook for full year revenue. However, as Andrew and Greg mentioned, we still expect to improve our bookings and customer retention metrics sequentially from Q2.

For FY 2025, we're revising the full year guidance that we provided on April 29, 2024, as follows: We expect FY 2025 subscription revenue to be in the range of 526 million to 532 million, representing a year-over-year growth rate of negative 2% to negative 1%. We expect FY 2025 total revenue to be within the range of 607 million to 617 million, representing a year-over-year growth rate of negative 4% to negative 3%. The reduction in total revenue for the full year reflects the change in subscription revenue guidance, as well as a more conservative view regarding the full year performance of our professional services business. As Greg outlined, we expect services revenue to improve in the second half of the year as unbilled work continues to moderate, we catch up on existing backlog and create additional attached services backlog from growth in subscription bookings. However, this improvement is now forecasted to be slower than previously expected.

We still expect FY 2025 gross profit margin to be within the range of 68% to 70%. Given the reduction in our revenue outlook, we now expect FY 2025 adjusted EBITDA to be around the lower end of the previously provided range of 215 million to 225 million, and full year adjusted EBITDA margin to be approximately 35% for FY 2025. We expect the year-over-year decline in EBITDA to be lower than in revenue as we continue to drive efficiencies in the business, as already demonstrated in the first half of FY 2025, while mindfully reinvesting some of the savings to ensure that our primary goal of returning to double-digit top-line growth remains on track.

We still expect to generate strong positive adjusted operating cash flow in FY 2025. Although our lower revenue outlook will have an incrementally negative impact on cash generation, it will be partially offset by lower interest expense due to the declines in interest rates and overall focus on cost savings. We expect year-end FY 2025 net leverage to be approximately 4.0 times. The underlying cash generation capability of our business remain strong and a continued area of focus for us.

In conclusion, during the fiscal second quarter, we made continued progress in our work to put E2open back on a sustainable double-digit top-line growth path. The key revenue drivers of bookings and retention both improved year-over-year and compared to Q1, which we now view as the full year low point for each. We are well-positioned for continued improvement in both bookings and retention, as we move through the end of this fiscal year with the impact of revenue expected to accelerate as we approach year-end. While we have experienced some delays in booking large new subscription deals, we view this just as a timing issue, while our underlying strategy, product strength and market positioning are intact and hold tremendous future potential.

Before closing, I want to thank all of E2open's employees, customers and partners for their continued support as we work through the transition, designed to position E2open for strong and consistent growth for the long term.

That concludes our prepared remarks. Operator, please open the line and begin the Q&A session.

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] The first question comes from Chris Quintero with Morgan Stanley. Please proceed.

Q: Hey, Andrew, Greg and Marje, thanks for taking our questions here. I wanted to double-click on the large deal delays. Just curious how Q2 maybe compared versus Q1? Did things get sequentially worse there in terms of the number of delays or was it more so you're kind of expecting an improvement that did not end up materializing?

Greg Randolph - Chief Commercial Officer, E2open Parent Holdings, Inc.

Yeah. So, hey, Chris, thanks for the question. Look, I think if you think about the nature of the big deals that we do, they're very strategic. These are CEO-level initiatives and so, what we experienced is, as you can look across other enterprise software companies, these decisions are taking much longer than anticipated, they're going through additional cycles of review, and so we certainly saw delays primarily based on just an additional evaluation at the highest level of our client base.

Marje Armstrong - Chief Financial Officer, E2open Parent Holdings, Inc.

And just to add to that, we referenced it in the prepared remarks, but when you compare Q1 and Q2, Q2 bookings and overall churn deal cadence, it did improve, but it did not improve to the degree that we expected. So, we did still see slowness in sort of the deal timing. But again, directionally, Q2 was improvement over Q1. Q2 was also an improvement year-over-year on both bookings and churn.

Q: Got it. That's really helpful. And then, I'm curious to hear what you're seeing with your SAP customer base and pipeline. We've done a lot of work around the ERP upgrade cycle happening right now and it seems like there's a lot of momentum there and acceleration. So, I think about 80% of your customers are also SAP customers. So was just wondering if you're seeing any signs of that momentum there starting to translate over into your pipeline.

Greg Randolph - Chief Commercial Officer, E2open Parent Holdings, Inc.

Yeah, there's no doubt we're seeing demand. Anytime you have a massive upgrade cycle shift in enterprise architecture, clients are reevaluating their entire portfolio, creating opportunities for us to more directly engage with clients to help them better understand our value proposition across our entire supply chain solution set. And so, we're creating two of the wins that we won in Q2 around logistics where they were initiated from an SAP-related evaluation, so we're definitely seeing demand there. We've got unique capabilities around SAP, so, yeah, we're definitely seeing an opportunity to increase pipeline as well.

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

Hey, Greg, just to add to it, this may be just a sample of clients. I think what happens is, as clients go through the upgrade, two things happen. One is that some of the new modules don't meet their expectations, so it kind of puts pieces of the SAP central core into RFP or opportunities. The flip side, and this is the part I want is that it's -- there is a natural timing to this because during the early phases, it takes up a lot of the capacity of the management team. I was talking to a big hardware maker, and they said, look, the team is very -- with one of our strategic integration partners, the client is very focused on rolling out their SAP HANA implementation and aren't ready to engage in other things here. So, do you agree with that?

Greg Randolph - Chief Commercial Officer, E2open Parent Holdings, Inc.

Yeah, absolutely.

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

So, there are things that spin out through the process that lead to an opportunity, especially in logistics, which feels like a weak point of the core modules. And then, there's also a, hey, look, we just got to get through this before we're going to start looking at new things like anterior [Phonetic] supply collaboration, which is not part of SAP's capability.

Q: Excellent. Super helpful. Thank you all.

Operator

Okay. The next question comes from Adam Hotchkiss with Goldman Sachs. Please proceed.

Q: Great. Thanks so much for taking the questions. I guess to start, what are you seeing and hearing from your systems integrators as a channel for demand? I know a lot has been going on internally with sales focused on customer success, so I imagine there's more of an opportunity for the SIs to step in here. I guess, what do you have to do on your end to sort of make that happen and spur that process, and where are we on that today?

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

Yeah, the dialogue we're having with a couple, a subset of the major strategic integrators. It is about partnering together to drive transformation, so that we can help them grow, help them win more work and that we will then be the provider of choice, and to get in together at the beginning as clients think about transformation. So, one example is that one of the top 10 packaged CPG food companies in the US, with me and the partner from the strategic integrator joined at the hip, basically laying out a multi-dimensional transformation across their whole supply chain. We're starting with demand, we're moving to supply, collab and co-packers, and then, we're about to kick off a whole work stream around transportation, because we think we could save them \$100 million or something like that. So, the conversation -- and I've had, I think, 40 conversations with account

owners and industry group leaders in that particular strategic, and it's all about how we can help them grow and jointly grow.

And then, we met with another one at Connect, which we had the exact same conversation. Let's pick five clients that are poor to you that you think are going to be right for supply chain changes next year. We'll pick our five in four verticals, we'll get a list of seven clients, and then we'll work with their industry group leaders to basically start dialogues with their -- leveraging their relationships with them generally higher than ours, but it's all about joint service line, joint capabilities to drive growth and transformation. And we're going to build some reference clients. We've got two big ones with one of the better-known SIs, one in CPG and there's another one in auto. And then, success begets success. So, it's a little different than it was previously. We're not seeing them as a source of kind of implementation support. I mean, they could do it, but it's not where they're going to make their money off of working with us.

Q: Okay. Understood. That's really helpful. And then, I just wanted to touch on the professional services revenue. I think it looks like you lowered the full year guide by about \$17 million, implied by the subscription and the total revenue guide. So I'm just curious, you talked about the pushing out of deals impacting this, and obviously, there's some unbilled work in there. But could you maybe dig into that a little bit more and help us understand what's driving the magnitude of the cut on that?

Marje Armstrong - Chief Financial Officer, E2open Parent Holdings, Inc.

Yeah. Maybe I'll start and then, Greg, you can add to it. Good question. So, obviously, just by the nature of not being on multiyear contracts, there's inherent volatility in the services business. And as large deals -- not large deals, large projects come to an end, if you don't have new bookings coming in, it can create volatility and timing. As we mentioned, some of the large deals that we've seen flip generally come with more attached PS services. So, the larger the booking, the more likely to have also large PS attached revenue, so there was some impact from that perspective. And then, I would say, in addition, we've talked about it in the last couple of quarter calls, we've brought in new leadership to the PS org to also really drive additional operational and execution changes to be more efficient in working through backlog, but I would also say that there's been a pointed focus on really driving flawless implementations and driving customer satisfaction, and we take that very seriously. PS revenue is not something that we think of as a standalone necessarily. It's really designed to drive higher subscription revenue, create happy customers, stickier relationships, and that's how we think about it for the long term.

Q: Okay.

Greg Randolph - Chief Commercial Officer, E2open Parent Holdings, Inc.

And, Adam, I'll just -- yeah, okay. Yeah, I think you covered it, yeah. All right. Thanks, Adam.

Operator

Okay. The next question comes from Taylor McGinnis with UBS. Please proceed.

Q: Yeah. Hi. Thanks so much for taking my question. So, first one, if I look at the second half implied subscription revenue outlook, it still implies like a bit of an uptick in 4Q. I know you talked about the expectation that you're going to see better retention rates and then also you're going to close some of these like larger deals that are in the pipeline. But can you just talk about how much, I guess, of that uptick is really coming from improving retention versus closing some of these larger deals? And when you think about what's giving you the confidence or comfort in that, is that because maybe some of these have already closed, some of the efforts that you're talking about like, is there any nuance in place to further drive retention higher, maybe it's just getting through tougher renewals? But, can you maybe like talk through some of the things that are giving you guys that comfort?

Marje Armstrong - Chief Financial Officer, E2open Parent Holdings, Inc.

Yeah, absolutely. So, if you look at our guidance, when you're looking at the low end of the guidance, it really very conservatively assumes no improvement in -- what we saw in the first half. And why I say that's conservative is that as we mentioned in our prepared remarks, we already saw improvement in both churn and bookings quarter-over-quarter and year-over-year. So, we're seeing that trend and we're expecting to see that continue into Q3 and Q4, not at the pace that we previously expected, but we're already seeing that in action. And so, when you think about the mid and the high end of the guidance range, that basically factors in what we're seeing in the improvement from Q1 to Q2 and what we're expecting for Q3 and Q4. Maybe, Andrew and Greg, if you want to focus on?

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

No, I think -- look, three quarters ago, we said, look, we were going to spend time focusing on retaining clients because they're hard to win and we're losing too many of them. So, that has manifested itself as a decline in churn and increase in retention. It's that simple. What we learned, I think, along the way is that clients made a lot of those decisions 18 to 24 months ago, not 12 to 18 months ago and so that pace of decline took a little longer, it's going to take a little longer than we expect. But if you look at the second half of the year, it looks materially better than the first half of the year, and when we look at the first half of next year, it looks materially better than the second half of this year. So, those are just the facts, right. It's the tail, whatever, of mistakes made two years ago.

Q: Perfect.

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

And now it's more predictable than -- and also leads to upsell and cross-sell tangibly. I mean we see it explicitly. Clients, once we solve their issues and retain them, they open up the door for a new opportunity.

Q: Really helpful. And then maybe as my second question, so I know you talked a little bit earlier about some of the unbilled services work and I know that you guys have had some efforts there in

order to help improve retention. So, I guess when you think about the sequential improvement that you guys saw, like, was the unbilled services a big contributor to that? And then maybe you can just give us an update on how that's going. When we think about the lower professional services outlook, was any part of that increasing the scope, right, of maybe some of these customers that you're helping work through some of these hurdles? Any additional color there would be helpful. Thanks.

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

Yeah. So, I want to -- so, one piece of clarity; in general, investments in clients in unbilled is far more for making sure we implement the existing projects with success than it is for saving an account, right. Saving an account is usually making sure they're using the software today that they should be and that they're getting value from it and that it's working, and so that's the first thing, right. So, where there's investments with professional services and clients, it's generally where an implementation or a commitment was made that exceeded taking more work to get done, and we don't think we should ask the clients for more money, and that we have a couple of situations that in order to retain a client, the solution that was originally presented to them wasn't right and so we had to kind of continue to have to make an investment to make sure the client is happy versus lose the client. But in general, what we're seeing is those investments are for keep getting implementations of things we sold, done, because what we found in churn is that we lose accounts because clients never actually implemented the software, believe it or not. And we're seeing a material -- a reasonable -- like, we track 100 clients, our number of clients that are in green status -- red status is down 50%, our number of clients that are green, because there are more of them, are up 50%, because that's what the portfolio looks like. But we're seeing a migration of shrinking bad implementations, and that is costing some resources.

Q: Great. Thanks so much for taking my questions.

Operator

The next question comes from Mark Schappel with Loop Capital. Mark, please proceed.

Q: Hi. Thank you for taking my question. Greg, I want to build on an earlier question on the deal delays. I was wondering if you could just provide additional color around these transactions like whether you're seeing a particular weakness in a certain vertical or a certain product category.

Greg Randolph - Chief Commercial Officer, E2open Parent Holdings, Inc.

Yeah. Hey, Mark, thanks for the question. We're not really seeing patterns from an industry perspective or from a product perspective. I'll just reiterate the fact that the large projects that we're focused on are very strategic and there's just been an elongated evaluation. These are CEO-level approvals. And one of the large cross-sell wins that I referenced in my opening remarks was a situation where it was we got all the way through the approvals and we were ready to sign the agreement and they went through another evaluation process, extended the timeline by almost a month. And the good news is we were able to close the deal. And I think, if you think about just - there have been a lot of things that we've been focusing on to really get this company back to

top-line double-digit growth. As Andrew mentioned, from the very beginning, client satisfaction has been job one and the most important focus for us. And as we continue to improve our retention numbers, we can invest more and more of our sales capacity on focusing on new business more so than on retaining clients and, again, I mentioned that in my opening remarks as well. So, I think a combination of those things have resulted in longer sales cycles. And I think the other point that Andrew made in his comments is we're still winning these deals and that gives me confidence and optimism for two reasons. Number one, the demand for our solutions, even in a difficult valuation scenario, we're still getting these deals across the line, it's just taking longer, and the fact that we have solutions that are valuable in a challenging situation.

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

Yeah. I think the only thing I'd add is that, I think, Greg, what gives us confidence is that most of the ones who get delayed end up closing and very few end up losing. And so, also, I think the strategic review itself creates a degree of uncertainty that in a couple of cases, has cost us a deal, but often, just ends up being like, look, we'll wait for that process to resolve itself before we make a decision. And that has led to, again, a handful of client delays, but when you're talking about some of our bigger, more sophisticated clients, those handfuls are you can count.

Q: Great. That's helpful. And then, one additional follow-up question. Andrew, there's a fair amount of M&A in the space in the supply chain space during the quarter, right. We had Korber buying MercuryGate, Blue Yonder closed One Network. Maybe just talk a little bit about your view of the changes to the competitive environment here and, also, whether you think there's an opportunity to pick up business from just potential disruptions at these firms?

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

Second one is a loaded question, but the first one I'd say is, the specific situation is minor, right. One Network is a distant competitor in the collaboration space and MercuryGate is a mid-market TMS, and we just don't see those players in our competitive suite, right. There's some ones we're running into, so that would be point one. Point two is, in some ways, it validates the strategy, and I think, at some point, we'll probably get back to acquiring either synergistic players like the Korber-MercuryGate or capability-based players to enhance our solutions where we aspire to be number one and number two in each of our spaces. But on the second question, the one I said it was a loaded question, let's just say that it also creates opportunities for us, because change in ownership leads other people to reflect on who they want to work with.

Q: Okay, great. Thank you.

Operator

[Operator Instructions] The next question comes from Andrew Obin with Bank of America. Please proceed.

Q: Hi. This is David Ridley-Lane on for Andrew. What were the strongest areas of new bookings for you among the product portfolio? What's getting better?

Greg Randolph - Chief Commercial Officer, E2open Parent Holdings, Inc.

Yeah. Hey, David, thanks for the question. As I mentioned, I think, in the opening remarks, we had two significant new logo wins that kind of reflect the market demand that we're seeing pick up and our competitive differentiation in those markets. One is in logistics, where we combine our traditional transportation management solution with the last-mile parcel capability and include visibility. Those three capabilities are unique that E2open has a unique value proposition and capability that can be delivered through one company versus multiple point providers. So, it became crystal clear in that situation that the clients saw value in that overall solution. The second piece is in our global trade product portfolio. We see tremendous demand, as supply chains become more and more global, the need to have a central way to manage how they trade their goods and services across different markets is incredibly important and we have a very compelling solution in that space. So, we're seeing incredible demand in those two areas and we have a unique value proposition.

Q: Got it. And just want to check that -- understand you're having the difficulties on the large deals, but in terms of getting back to normalized churn rates by the start of fiscal year 2026, you're still tracking towards that on that trajectory?

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

The short answer is yes. What is normalized versus ultimate goal, I would say, we'd like to churn to continue to lower even going into the year after that; how about that? So, we are definitely tracking towards a normalized level for us, but that's not a best-in-class level, which we think is achievable over the next 18 months, but yes.

Q: Got it. Understood. Thank you very much.

Operator

We have no further questions in queue. I'd now like to turn the floor back to management for any closing remarks.

Andrew Appel - Chief Executive Officer, E2open Parent Holdings, Inc.

Yeah, thank you for that. Look, we, as a team, have an immense amount of confidence in, like, the direction we're taking the organization. That's where I'd like to close. So, I think we were just talking about retention, right, so we have put immense focus on retention, and we are very confident that next year retention will move back to normalized levels and continue to decline. That will unlock a whole portfolio of clients, because, in my opinion, we serve more than half of the client base to begin with in some capacity, just given the breadth of our product portfolio. And we see that time and time again already that when we treat a client well, when we resolve the situation that leads to retention, then we end up with a new opportunity, and there's at least 10 specific opportunities. And so, the combination of that booking and churn, once churn is back to normalized levels when we get bookings to continue to rise, we'll have net book growth as we

enter 2026 and as you know, revenue takes 6 to 12 months to follow, as everybody knows, the bookings growth. But I think it would be hard to imagine us not seeing net book growth and ultimately, net revenue growth in the very near future, and we're committed to it and the team is committed to it, and I think it's going to be an enjoyable period of time once we get there.

Operator

Thank you. This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.