Informatica

Fiscal Q2 2024

Earnings Results Prepared Remarks

July 30, 2024

Safe Harbor and Statement Regarding Use of Non-GAAP Financial Measures

This document contains forward-looking statements about Informatica and the environment in which Informatica operates. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, market size and growth opportunities, the calculation of certain of our key financial and operating metrics, capital expenditures, plans for future operations, competitive position, technological capabilities, and new product releases, including those that use artificial intelligence and machine learning, our efforts to reduce operating expenses and adjust cash flows in light of current business needs and priorities, our expected costs related to restructuring and related charges, including the timing of such charges, the impact of the restructuring and related charges on our business, results of operations and financial condition, plans regarding our stock repurchase authorization, the potential benefits realized by customers from artificial intelligence and our cloud modernization programs, our expectations regarding tax rates, the effect of foreign currency exchange rates, the effect of macro-economic conditions, and strategic relationships, as well as assumptions relating to the foregoing. Such statements are subject to known and unknown uncertainties and contingencies outside of Informatica's control and are largely based on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, and financial needs. Informatica's actual results, events, or circumstances may differ materially from these statements. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," "would," or similar expressions and the negatives of those terms. You should not put undue reliance on any forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all.

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Further information on these and additional risks, uncertainties, and other factors that could cause actual outcomes and results to differ materially from those included in or contemplated by the forward-looking statements contained in the earnings release issued on July 30, 2024, are included under the caption "Risk Factors" and elsewhere in our Annual Report on Form 10-K that was filed for the year ended December 31, 2023 and other filings and reports we make with the Securities and Exchange Commission ("SEC") from time to time. In addition to U.S. GAAP financials, this presentation includes certain non-GAAP financial measures, including Adjusted EBITDA, Adjusted EBITDA margin, Adjusted unlevered free cash flow, Adjusted unlevered free cash flow margin, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating margin, non-GAAP net income, non-GAAP operating loss (income) and net debt. These non-GAAP measures are in addition to, not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP. The non-GAAP financial measures used by Informatica may differ from the non-GAAP financial measures used by other companies. A reconciliation of these measures to the most directly comparable U.S. GAAP measure is included in the slide presentation available on Informatica's Investor Relations website at investors.informatica.com. This document contains statistical data, estimates and forecasts that are based on independent industry publications or other publicly available information, as well as other information based on our internal sources. This information involves many assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the data contained in these industry publications and other publicly available information. Accordingly, we make no representations as to the accuracy or completeness of that data nor do we undertake to update such data after the date of this document.

Unless otherwise indicated, all references in this document to “Informatica,” “we,” “our,” “us,” or similar terms refer to (i) Ithacalux Topco S.C.A. and its consolidated subsidiaries for the periods prior to the completion of certain restructuring transactions and (ii) Informatica Inc. and its consolidated subsidiaries for the periods subsequent to the completion of such restructuring transactions.

Victoria Hyde-Dunn – Vice President, Investor Relations:

Good afternoon and thank you for joining Informatica’s second quarter 2024 earnings conference call. Joining me today are Amit Walia, Chief Executive Officer, and Mike McLaughlin, Chief Financial Officer. Before we begin, we have a couple of reminders. Our earnings press release and slide presentation are available on our Investor Relations website at investors.informatica.com. Our prepared remarks will be posted on the Investor Relations website after the conference call concludes.

During the call, we will be making comments of a forward-looking nature. Actual results may differ materially from those expressed or implied as a result of various risks and uncertainties. For more information about some of these risks, please review the company's SEC filings, including the section titled Risk Factors included in our most recent 10-Q and 10-K filing for the full year 2023.

These forward-looking statements are based on information as of today, and we assume no obligation to publicly update or revise our forward-looking statements except as required by law. Additionally, we will be discussing certain non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for measures of financial performance prepared in accordance with GAAP. A reconciliation of these items to the nearest US GAAP measure can be found in this afternoon’s press release and our slide presentation available on Informatica’s Investor Relations website.

It is my pleasure to turn the call over to Amit.

Amit Walia – Chief Executive Officer:

Thank you, Victoria and everyone for joining us today. I will start today's call by summarizing three key points.

First, we had a solid second quarter. Our results were within or above all second quarter guidance metric ranges. This was driven by continued strong customer momentum and consistent execution from our cloud-only, consumption-driven strategy.

Second, we continue to deliver the best data management products on the industry’s only AI-powered platform. After a 12-month extensive private preview, we launched CLAIRE GPT, our generative AI chat interface, on the IDMC platform. Informatica is now the industry's only cloud data management platform with AI and Generative AI capabilities for modern enterprises, and it is the "Switzerland of Data and AI." Third, given our strong execution in the first half of the year, we are raising Cloud Subscription ARR, Subscription ARR, non-GAAP Operating Income, and Adjusted Unlevered Free Cash Flow (after-tax) guidance for the full year. We remain focused on supporting our customers’ digital transformation, cloud modernization, and now their GenAI initiatives.

Starting with our second quarter results, total revenue grew 6.6% year-over-year. Subscription ARR grew 15% year-over-year, and Cloud Subscription ARR grew 37% year-over-year, both exceeding the high end of our guidance range. We delivered a record $703 million in Cloud Subscription ARR, exceeding the $700 million mark for the first time. We strengthened our cash position and grew non-GAAP operating income by over 31% year-over-year, above the midpoint of the guidance range.

The macro-environment remained stable in the second quarter, consistent with the prior quarter. Approximately 74% of cloud net new ARR in the trailing 12 months came from new cloud workloads and expansion. We are attracting new customers, expanding opportunities with existing customers, and driving new workloads in the G2K market, supported by our robust partner ecosystem and healthy cloud pipeline. Customers that spend more than $1 million in Subscription ARR increased 28% year-over-year to 272 customers. Customers spending more than $5 million in Subscription ARR grew 30% year-over-year. We saw continued strong growth in our average Subscription ARR per customer, which reached $321,500, a 17% increase year over year.

Let me share two customer stories.

American Airlines is the largest airline in the world offering safe, dependable and friendly air transportation to its' customers along with numerous loyalty services. Dedicated to making every flight something special, American Airlines purchased Cloud Data Quality to improve real-time customer experience and retention through excellent loyalty program incentives such as low fare options, mileage redemption, in-flight entertainment and more.

One of the world's largest graphics processing unit suppliers selected Informatica's IDMC platform, which includes MDM, Data Quality, Data Integration, and Data Governance capabilities.

Next, approximately 26% of cloud net new ARR in the trailing 12 months came from on-premise to cloud migrations. This is still a very small portion of our on-premise install base, but it continues to provide us with the opportunity to modernize our customers and grow our cloud business. We see strong customer adoption of PowerCenter Cloud Edition, representing over 80% of all modernization deals in Q2.

Let me share two customer stories.

Westpac, Australia's first bank and a major player in New Zealand, managing numerous legacy applications following acquisitions. To support its business strategy, which focuses on data-driven decision-making, automation, and AI, the bank has expanded its partnership with Informatica, transitioning from PowerCenter to the IDMC platform. This will help Westpac reduce data management costs, expedite automation initiatives, and elevate the customer experience across branches, online platforms, and call centers.

As a leading medical technology company, Siemens Healthineers is committed to improving access to healthcare for underserved communities worldwide and is striving to overcome the most threatening diseases. The company is principally active in the areas of imaging, diagnostics, cancer care and minimally invasive therapies, augmented by digital technology and artificial intelligence. Siemen Healthineers opted to modernize their on-premise Informatica data governance and catalog solutions to IDMC and further expand their footprint to include cloud data quality to address regulatory requirements and provide trustworthy data to the enterprise.

At Informatica World, we welcomed thousands of global customers, prospects, ecosystem partners, and GSI partners. They had the opportunity to engage, collaborate, and see firsthand how Informatica empowers enterprises to democratize data. They also heard testimonials about how the powerful combination of data and AI can deliver unprecedented business outcomes.

We featured Scott Guthrie, EVP of Cloud+AI Group Microsoft, as a mainstage speaker. We announced the public preview of IDMC as an Azure Native ISV service, the private preview of our Data Quality native application for Microsoft Fabric, and the general availability of our Cloud Data Access Management support for Azure.

We also featured Sridhar Ramaswamy, CEO of Snowflake, on mainstage and announced our Gen AI Blueprint for Snowflake Cortex and our new Native SQL ELT for Snowflake.

At Snowflake Summit, we announced the general availably of our Snowflake Native application, the Enterprise Data Integrator for high-speed replication of critical enterprise data to Snowflake, expansion of our Native SQL ELT to support Snowflake Gen AI functions, and our Cloud Data Access management support for Snowflake integrated with Snowflake Horizon governance capabilities.

We were awarded Databrick's 2024 Data Integration Partner of the Year at their Data and AI Summit, where we announced our Gen AI Blueprint for Databricks DBRX, full verification of Unity Catalog support across IDMC, our new Native SQL ELT capability for Databricks, and the availability of our Cloud Data Integration no-cost service tier via Databricks Partner Connect.

We were awarded MongoDB's 2024 Build with Partner of the Year.

We launched our Cloud Data Governance and Catalog service natively on Oracle Cloud.

We also extended support for open table formats in Apache Iceberg. Iceberg adoption is in the early stages of growth across our cloud data ecosystem partners, from Snowflake to AWS and Microsoft Fabric, and now, with the acquisition of Tabular by Databricks. Informatica's new open table format connectors support advanced data ingestion and integration use cases to drive large-scale data engineering operations for high-performance analytic and ML projects.

Turning to GSI partners, some of our largest partners have experienced significant growth within their Informatica practices and are expanding their data and AI practices. We have seen growing interest in developing and taking solutions to market based on IDMC. For instance, LTIMindtree launched a solution to assist non-Informatica businesses with legacy, on-premises Data Integration products in modernizing and transitioning to IDMC. As part of our ongoing strategy, we are seeing more partners assume a greater role in implementation services work supporting our customers.

We continue to be the leading innovators in our industry. Over the years, we've invested over a billion dollars in R&D and are the biggest investors in data management engineering in our space. We were pleased to be recognized by IDC as the market share Leader in the 2023 Worldwide Report for both the data integration and data intelligence markets. We were also recognized as Champions in the Bloor Research 2024 MarketUpdate reports for Data Fabric, Data Quality, and Test Data Management.

Now, let me turn to GenAI, which is at the top of customers' minds.

As I speak with CDOs, CIOs, and digital leaders across the globe, there is a universal agreement that "Everyone is ready for GenAI, except your data."

Data management brings AI to life, ensuring trust, responsibility, ethical use, and value creation. Our efforts to assist customers with their AI strategic initiatives are twofold—Informatica for GenAI and GenAI from Informatica - both available on the IDMC platform.

Informatica for Gen AI includes all IDMC capabilities—data integration, data governance, data quality, master data management, app integration and cataloging—which are critical to processing mission-critical workloads. In June, IDMC processed 97 trillion cloud transactions per month, growing 59% year over year.

At Informatica World, we unveiled new features and product enhancements, including building no-code GenAI apps with prompt engineering, RAG, and ReAct AI agent support. We support popular LLMs and VectorDBs with enterprise-grade scalability and governance. We included new capabilities for contextualizing LLMs on enterprise data, including chunking, embedding, and ingestion into Vector DBs. IDMC will add support sources for documents, images, and video sources, with full integration across cloud data access management policies, data quality rules, catalog, and integration pipelines. IDMC is LLM agnostic, future-proofed, and has out-of-the-box connectors for easy navigation of any model, from hyper-scalers to smaller providers.

Some fantastic real-life use cases include:

- A California-based credit union uses IDMC to optimize sentiment analysis with customer support training. It provides proactive customer service by identifying customer support KPIs, reducing customer handling time through automated analysis of large volumes of phone interactions, and providing decision support using OpenAI.

- A large marketing company in the US uses IDMC to build GenAI-based incident management, alleviating the burden on the incident management team by automating incident assessment and providing actionable insights with sentiment analysis using LLM with the RAG framework.
- A large pension firm in Canada is using IDMC to build a GenAI-based intelligent chatbot, improving employee productivity by reducing the processing time for queries on insurance proposals and claims through automated analysis and decision support using locally hosted LLM.

Turning to GenAI from Informatica, we launched CLAIRE GPT, the first GenAI-powered data management assistant grounded by enterprise metadata intelligence leveraging core IDMC capabilities. In May, we announced general availability in North America after an extensive 12-month preview program.

CLAIRE GPT is ChatGPT for enterprise data, providing capabilities like data discovery, metadata exploration, finding data quality, data lineage, and even creating ELT pipelines. Along with Claire GPT, we also have Claire copilot capabilities, providing in-context product data assistant with Claire-generated classifications.

One of Informatica's key differentiators is its metadata system of record, which provides valuable insights into data assets' location, quality, and relevance for analytics and data science use cases. This is more than just Informatica metadata; it is metadata across the enterprise, data warehouses, data lakes, applications, BI tools, or mainframes from trained LLMs and SLMs. CLAIRE, our AI engine, is now leveraging over 49 petabytes of active metadata in the cloud.

Customers are in the early stages of piloting CLAIRE GPT. Since its launch, over 150 enterprise customers have consumed IPUs on CLAIRE GPT usage, primarily for data discovery and exploration use cases.

For instance, SSM Healthcare uses CLAIRE GPT to enhance data literacy with a natural language interface for data discovery, examine data lineage, and thoroughly assess data quality. With CLAIRE GPT, they provide a self-service interface for Medical Information Officers to effortlessly get insights on their data, such as the number of orthopedic providers in the network, ensuring appropriate patient coverage. A global supply chain company's data analysts use CLAIRE GPT to monitor, maintain, and report on product movements, such as receipt, dispatch, and storage, without needing SQL.

These examples provide just a glimpse into the real-life use cases and stories that customers share feedback with us. To further show our commitment to helping enterprise customers embrace trusted and holistic data for their AI initiatives, we are introducing a new promotion in August to drive broad CLAIRE GPT adoption. This offer is for eligible North American customers to use CLAIRE GPT at no additional cost through the end of 2024.

Now, looking ahead to the second half of the year, we are pleased to raise four guidance metrics for the full year, including Cloud Subscription ARR, to 35.5%. We had good execution and momentum in the first half of the year and believe our operational health remains strong, as evidenced by our predictable cloud subscription revenue business model, strong customer base, healthy cloud pipeline and retention rates, and growing unlevered free cash flow.

Our growth priorities continue to center around three key strategic initiatives outlined at Investor Day. First, data-driven digital transformation is crucial for our customers to achieve digital leadership. Second, modernizing legacy data estates to help enterprises harness the advantages of being a digital business. Lastly, delivering GenAI capabilities and assisting customers in exploring the intersection of data and AI for data management. These remain important initiatives for modern enterprises and a tailwind to Informatica for many years to come.

As I wrap up, thank you to my Informatica colleagues, partners, customers, and shareholders for their ongoing support.

Let me turn the call over to Mike.

Mike McLaughlin – Chief Financial Officer:

Thank you, Amit, and good afternoon, everyone. Q2 was another solid financial quarter across the board, with all key growth and profitability metrics within or above our guidance metrics.

I'll begin my discussion of Q2 results with a quick review of the components that make up Informatica's Annual Recurring Revenue, or ARR. Our ARR falls into three categories: Cloud subscriptions, which grew 37% year-over-year; Self-Managed subscriptions, which we no longer actively sell and therefore are gradually declining; and Maintenance for on-premises perpetual licenses that we no longer actively sell, which is also in gradual decline.

With that in mind, let's start with Total ARR, which was $1.67 billion, an increase of 7.8% over the prior year. This growth was driven primarily by new cloud workloads, strong cloud net expansion with existing customers, and stable self-managed subscription and maintenance renewal rates. Foreign exchange rates negatively impacted total ARR by $2 million.

Cloud Subscription ARR was $703 million, a 37% increase year-over-year and $10.6 million above the midpoint of our May guidance. New cloud workloads and strong net expansion with existing customers drove Cloud Subscription Net New ARR of $190 million year-over-year and $50 million sequentially. Cloud Subscription ARR now represents 42% of Total ARR, up from 33% a year ago. Foreign exchange negatively impacted Cloud Subscription ARR by about $720 thousand.

Our Cloud Subscription Net Retention Rate remained very strong in Q2. At the end-user level, it was 119%, up 3 percentage points year-over-year and flat versus last quarter. Cloud Subscription Net Retention Rate at the global parent level was 126%, up 4 percentage points year-over-year and up 2 percentage points versus last quarter.

Self-managed Subscription ARR declined in the quarter, as expected, to $494 million. This was down 2% sequentially and down 7% year-over-year, somewhat better than our expectations coming into the quarter.

Subscription ARR, which is simply the sum of Cloud ARR and Self-managed ARR, grew 15% year-over-year to $1.2 billion, which was $18.5 million above the midpoint of our May guidance. Foreign exchange rates negatively impacted Subscription ARR by approximately $1.1 million.

The third component of total ARR is Maintenance for on-premise perpetual licenses sold in the past, which now represents 28% of Total ARR. Maintenance ARR was down approximately 7% year-over-year to $472 million. This was in line with our expectations for the quarter.

Modernizing our on-premise customer base to Informatica's Intelligent Data Management Cloud is a large opportunity for us. As of the end of Q2, we have migrated 6.1% of our maintenance and self-managed ARR base to Cloud, up from 5.5% last quarter. We have a life-to-date average two-to-one ARR uplift ratio on these migrations, including PowerCenter and Master Data Management migrations. In Q2, we closed a similar number of cloud modernization deals as in Q1. In the first half year of this year, the number of modernization deals grew 58% year-over-year, and in the second half of the year, we expect modernization growth to be above our average cloud subscription ARR growth rate.

To summarize our Q2 ARR performance, the three components of our ARR summed to 7.8% total ARR growth year-over-year. Cloud Subscription ARR growth of 37% drove this increase, offset by gradual Self-Managed Subscription and Maintenance ARR declines. We expect similar trends to continue throughout the second half of 2024 as a direct result of our cloud-only strategy.

Now, I would like to review our revenue results for the second quarter. GAAP total revenues were $401 million, an increase of 6.6% year-over-year. Foreign exchange rates negatively impacted total revenues by approximately $1.6 million on a year-over-year basis. Our total revenues were approximately $1.4 million below the midpoint of our May guidance due to two primary factors.

- First, as a direct result of our strategy to shift more of our customers' implementation and support work to our professional services partners, professional service revenues were lower than our original forecast. This is a positive development for Informatica, as our services partners are an important go-to-market channel, and the services related to our software are an attractive business for those partners. To illustrate the importance of this channel, for the first half of the year, closed wins in which partners brought Informatica into the opportunities represented more than 30% of total bookings.
- The second factor impacting our GAAP total revenue this quarter was a somewhat lower average term length of self-managed subscription renewals. This resulted in less upfront-recognized self-managed subscription revenue per the ASC 606 accounting standard than our previous forecast. As most of you know, ASC 606 accounting for self-managed subscription revenue does not impact ARR, billings or cash flow. Shorter term lengths on renewals mean less GAAP revenue is recognized up-front per ASC 606, but ARR, billings, and cash flow are not affected. We expect these two trends – lower professional services revenue and shorter self-managed renewal terms -- to continue for the remainder of the year, and therefore, we are lowering our full-year 2024 GAAP total revenue forecast accordingly, as we will discuss in a moment.

Subscription revenue – which includes Cloud Subscriptions and Self-managed Subscriptions -- increased 16% year-over-year to $264 million, representing 66% of total revenue compared to 61% a year ago. Our quarterly subscription renewal rate was 90%, down 2 percentage points year-over-year due to lower self-managed subscription renewal rates offset by higher cloud subscription renewal rates. Our subscription renewal rates have been largely consistent with our expectations so far this year.

Revenues in our Maintenance and Professional Services category were $136 million. Maintenance revenue of $116 million represented 29% of total revenue for the quarter, and our Maintenance renewal rate was 96%, up 2 percentage points year-over-year.

Professional Services revenues, which include implementation, consulting, and education, make up the remainder of this category and are down almost $4 million year-over-year. As we have seen in prior quarters, our implementation services revenue has been declining year over year as our services partners assume a greater share of that work for our customers, and we expect this trend to continue in the second half of the year.

Cloud Subscription revenue was $161 million, or 61% of Subscription revenues, growing 35% year-over-year. As a reminder, due to the timing difference between revenue and ARR recognition, the relative growth rates of these two metrics may differ from period to period.

Turning to the geographic distribution of our business, U.S. revenue grew 7% year-over-year to $256 million, representing 64% of total revenue, while international revenue grew 5% to $144 million. Using exchange rates from Q2 last year, international revenue would have been approximately $1.6 million higher in the quarter, representing international revenue growth of 6.5% year-over-year.

Informatica's consumption-based pricing unit, the IPU, represented approximately 58% of second quarter cloud new bookings. The remainder of Q2 cloud bookings were primarily for customer or supplier records for our MDM products, which is also a multi-year committed, consumption-based pricing model. We added three new IPU services, including CLAIRE GPT, to our IDMC platform this quarter. We now have 36 data management capabilities that our customers can access and consume on our unified platform using IPUs.

Now, I would like to move on to our profitability metrics. Please note that I will discuss non-GAAP results unless otherwise stated.

In Q2, our gross margin was 82%, an increase of over 1.6 percentage points year-over-year. We remain focused on maintaining healthy gross margins as our business transitions to the Cloud.

Operating expenses were consistent with expectations. Operating income was $115 million, growing 31% year-over-year and exceeding the midpoint of our May guidance by almost $2 million. Operating margin was 28.7%, a 5.4 percentage point improvement from a year ago. Adjusted EBITDA was $119 million, and Net Income was $71 million. Net income per diluted share was $0.23 cents, based on approximately 315 million outstanding diluted shares. Basic share count was approximately 301 million shares.

Adjusted Unlevered Free Cash Flow after tax was $71 million, better than expected due to faster cash collections and other working capital dynamics. Combined with Q1 results, unlevered free cash flow for the first half 2024 was in line with historical linearity, as expected. I will update our expectations for the full year in a moment.

Cash paid for interest in the quarter was $38 million, in line with expectations. In June, we repriced our $1.8 billion outstanding term loan, reducing the applicable margin by 50 bps and eliminating the Credit Spread Adjustment related to the transfer from LIBOR to SOFR. This repricing will save approximately $11 million in pre-tax interest expense on an annual basis.

We ended the second quarter in a strong cash position with cash plus short-term investments of $1.13 billion, an increase of $307 million year-over-year. Net debt was $704 million and trailing 12 months of adjusted EBITDA was $529 million. This resulted in a net leverage ratio of 1.3 times at the end of June.

Now, I will turn to guidance, starting with the full year 2024. We are very pleased with our execution in the first half of 2024, and we have good momentum going into the second half of the year. This reflects confidence in our cloud-only, consumption-driven strategy, supported by strong customer momentum and renewal rates.

Similar to the first half of the year, we expect Cloud Subscription ARR to grow, while Self-managed and Maintenance ARR is expected to decline sequentially and year-over-year in the second half of the year. Therefore, we are comfortable raising FY 2024 Cloud Subscription ARR by $3 million and Subscription ARR by $4 million at the midpoint. We now expect Cloud Subscription ARR to be in the range of $829 million to $843 million, representing approximately 35.5% year-over-year growth at the midpoint of the range. We now expect Subscription ARR to be in the range of $1.265 billion to $1.299 billion, representing approximately 13.2% year-over-year growth at the midpoint of the range. We are reaffirming Total ARR to be between $1.718 billion and $1.772 billion, representing approximately 7.3% year-over-year growth at the midpoint of the range.

Turning to Total Revenues, we expect the same dynamics regarding professional services and self-managed renewal duration as we saw in Q2 to continue for the remainder of the year. We estimate this impact to be approximately $21 million, about evenly split between these two dynamics. Additionally, due to the recent strengthening of the U.S. dollar against the Euro, Pound, and Yen, we now expect increased FX-related revenue headwinds of approximately $4 million compared to previous assumptions. Taking this all together, we are updating GAAP total revenues downward by approximately $25 million to the range of $1.66 billion to $1.68 billion, representing approximately 4.7% year-over-year growth at the midpoint of the range. It is very important to understand that this reduction in total revenue guidance does not reflect any changes in our expectations for our core recurring revenue software business. Lower expectations for low-margin professional services revenues and lower up-front self-managed revenue recognition pursuant to ASC 606, along with FX, are the cause.

We delivered better-than-expected bottom-line results and are raising guidance for non-GAAP Operating Income by $5 million and Adjusted Unlevered Free Cash Flow after tax by $10 million at the midpoint. We now expect Non-GAAP Operating Income to be in the range of $538 million to $558 million, representing approximately 18.5% year-over-year growth at the midpoint of the range. We now expect Adjusted Unlevered Free Cash Flow (after-tax) to be $545 million to $565 million, representing 23% year-over-year growth at the midpoint of the range.

Turning to the third quarter, we are establishing guidance for the third quarter ending September 30, 2024, as follows:

- We expect GAAP Total Revenues to be in the range of $412 million to $428 million, representing approximately 2.8% year-over-year growth at the midpoint of the range.
- We expect Subscription ARR to be in the range of $1.199 billion to $1.219 billion, representing approximately 12.2% year-over-year growth at the midpoint of the range.
- We expect Cloud Subscription ARR to be in the range of $738 million to $748 million, representing approximately 35.2% year-over-year growth at the midpoint of the range.
- We expect Non-GAAP Operating Income to be in the range of $139 million to $151 million, representing approximately 13.2% year-over-year growth at the midpoint of the range.

For modeling purposes, I would like to provide a few more pieces of additional information.

First, we expect Total ARR for the third quarter to be in the range of $1.66 billion to $1.69 billion, representing approximately 6.3% year-over-year growth at the midpoint of the range.

Second, we expect Adjusted Unlevered Free Cash Flow after-tax for the third quarter to be in the range of $110 million to $130 million.

Moving on, we estimate cash paid for interest will be approximately $36 million in the third quarter and approximately $146 million for the full year, using forward interest rates based on one-month SOFR.

Fourth, with respect to taxes, our Q2 non-GAAP tax rate was 23% and we expect that rate to continue for the full-year 2024.

Lastly, our share count assumptions. For the third quarter, we expect basic weighted-average shares outstanding to be approximately 304 million shares and diluted weighted-average shares outstanding to be approximately 312 million shares. For the full-year, we expect basic weighted-average shares outstanding to be approximately 302 million shares and diluted weighted-average shares outstanding to be approximately 313 million shares.

In summary, we are very pleased with our second-quarter performance and the first half of the year. We are focused on executing our cloud-only, consumption-driven strategy and delivering our 2024 guidance.

Operator, you can now open the line for questions. Thank you.