Earnings Call Prepared Remarks

Q2FY27

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Q2FY27 Earnings Results Conference Call

Jason Rechel

Thank you, operator, and welcome everyone to ServiceTitan's fiscal second quarter 2027 earnings conference call. With me are ServiceTitan's Co-Founder and CEO, Ara Mahdessian, Co-Founder and President, Vahe Kuzoyan, and CFO, Dave Sherry.

During today's call, we will review our fiscal second quarter 2027 results. We will also discuss our guidance for the third fiscal quarter and full fiscal year 2027. Before we get started, we want to draw your attention to the safe harbor statement included in today's press release and emphasize that information discussed on this call, including our guidance, is based on information as of today and contains forward-looking statements that involve risks, uncertainties, and assumptions. All statements other than statements of historical fact could be deemed to be forward-looking.

Forward-looking statements reflect our views only as of today, and except as required by law, we undertake no obligation to update or revise these forward-looking statements. Please take a look at our filings with the SEC for a discussion of the factors that could cause our results to differ.

We also want to point out that we present non-GAAP measures in addition to and not as a substitute for financial measures prepared in accordance with generally accepted accounting principles. Definitions of these non-GAAP financial measures, along with reconciliations to our GAAP financial measures, are included in our earnings release, which we have furnished with the SEC and is available on our website at investors.servicetitan.com.

Unless otherwise stated, all references on this call to platform gross margin, total gross margin, operating income, operating margin, free cash flow and related growth rates are on a non-GAAP basis. Finally, we have posted an updated investor presentation that can be found on the investor relations website at investors.servicetitan.com, along with a replay of this call.

With that, let me turn the call over to Ara. Ara?

Ara Mahdessian

Thank you, Jason. And thank you for joining us. I am excited to share that our strong momentum delivering the Agentic Operating System to the Trades resulted in 21% year-over-year revenue growth and record free cash flow this quarter.

Over the course of the year, it has become increasingly obvious that delivering this Agentic Operating System to our customers and leveraging AI to further enhance our organizational velocity are once in a lifetime opportunities to execute against. As a result, we've broadened the scope of our investments in Max and the Software Factory in absolute dollars and also relative to our expectations at the beginning of the year. We now believe that focusing on our existing trades and accelerating our shift towards Max will allow us to unlock the full potential of our business in the years ahead. Vahe will share more about our Max execution, Dave will discuss the financial implications of this mix shift, and I am excited to lead with the outcomes that our customers are realizing with Max today.

Our vision since founding ServiceTitan has been to transform the lives of hardworking contractors by helping them grow revenue and increase margins. From day one, we imagined a world where technicians focused on serving customers in the field, leaders focused on business outcomes, and ServiceTitan increasingly handled the operational complexity in between. The outcomes our customers are now seeing with Max, and our organizational readiness to lean into this success, give me even more clarity into our forward trajectory.

As many of you know, we introduced Max as a pilot program at Pantheon last September, where Stacy Anapol was sitting in the audience. Stacy, the co-owner and president of Delponte Plumbing & Heating, saw immediate potential in Max. She saw an operating system, with a singular company brain connected to every piece of context in her business, and armed with the ability to take action on key workflows in her operation. One that could automate and optimize how her business generated demand, booked appointments, sold work, managed payroll and inventory, and more — allowing her team to handle far more volume with the same headcount.

Delponte has been in business for nearly 50 years and first implemented ServiceTitan in 2023, when Stacy took over as president. Her initial goal was straightforward: To build a better company for their customers, their employees and the future of the business. I'm glad to share that Delponte's results have been extraordinary so far.

Stacy's revenue grew more than 35% year-over-year during Q1 2026, and more than 45% year-over-year in the second quarter of 2026, accelerating as the quarter went on. With Max, Delponte generated more calls, booked more appointments, and closed more sales with higher average tickets.

But what impressed me most wasn't the revenue growth; it was what the operating model allowed them to do next. Delponte launched a new vertical entirely around recurring service. In just three months, they've already served 400 customers – all without adding a single back-office employee.

Delponte's technician-to-admin ratio moved from 2:1 in 2025 to 3:1 in 2026, materially improving profitability. Whereas technicians often work long hours during peak season to serve every customer, and the office is typically over-extended, technicians averaged only 45 hours per week and office morale has never been stronger.

As I said last quarter, the power Max unlocks means work that used to require a group of people manually coordinating an operation is now orchestrated by the system itself, with humans and AI agents working together, each doing what they do best. Delponte is proving something we've believed from the beginning. When routine coordination is handled automatically, leaders spend less time coordinating work and more time coaching people, serving customers and growing the business.

We see this as just the beginning and are excited to announce the next big wave of innovation at Pantheon in October. We are focused on leveraging the Max platform and our massive proprietary dataset, expanding ecosystem, brand leadership, and distribution across more than 10,000 high performing contractors to bring the magic of end-to-end automation to life.

Before I conclude, I want to take a moment to thank Ross Biestman for building ServiceTitan into the business we are today. We announced earlier today that, after leading us from less than $30M in ARR to over a billion of annualized run rate revenue, Ross has decided to step away from an operating role; but not before closing through Pantheon and Q3 as our CRO and then serving as an advisor through the end of the fiscal year to ensure a smooth transition. Ross, I am grateful for your leadership and your friendship over the past 9 years. Being the leader that you are, you've also built a bench of exceptional leaders and a world-class go to market machine. Rikus Pretorius has served as our SVP of Worldwide Sales and Ross' right hand for over seven years. We have great confidence that we have the right sales leadership team to lead us forward as Rikus steps into the CRO role beginning in Q4. Now, let's hear more from my co-founder, Vahe.

Vahe Kuzoyan

Thanks Ara. Max has become the foundation for our future and, while I don't want to steal too much of our Thunder from Pantheon next month, I'd like to dive right into the progress we made during the second quarter.

Our North Star has always been to deliver transformational customer outcomes. Max customers continue to overperform their peers across key funnel metrics and are creating tangible business value. Max customers are generating more leads, converting those leads at a higher booking rate, and completing work at a higher average ticket. They are doing this with improved operational ratios - like what you heard from Delponte - to deliver a faster and more efficient rate of growth relative to peers. We now have over 30 Agentic capabilities native within Max to power enhanced automation, including new Q2 introductions like demand orchestration, abandoned session SMS recovery, AI coaching & scorecards and live escalations.

Due to the strength of these customer outcomes, we are growing Max more quickly than we had previously expected. We doubled the number of locations enrolled in Max during our fiscal Q1 to just over 100 and we had expected to again double that number during Q2. As a result of strong execution with existing customers and progress selling to select new customers for the first time, we exceeded our goal during Q2 and we now expect to end this fiscal year with over 700 enrolled Max locations.

In addition to Max, we began to put our full go to market efforts behind another pillar of our AI monetization strategy, Virtual Agents, in May. The differentiation of our natively integrated platform is proving out, particularly with our SMS Agentic capabilities now native alongside voice. During Q2, we launched voice and SMS features like Speed to Lead, Technician Notifications and both inbound & outbound capabilities, each converged within our AI powered demand generation and capacity optimization platform. While Virtual Agents remain early overall, during Q2 our revenue and call volume each more than doubled sequentially.

And when it comes to our organizational velocity, our vision to build a software factory is increasingly taking shape. At its core, we envision that the Software Factory will be the growth engine behind our platform. It will touch everything we build and everything our customers experience — improving the platform, the pace of feature introductions and how we sell and market ServiceTitan. We're creating a self-reinforcing loop where software perpetually learns and improves based on actual customer behavior to build faster and more efficiently than we ever could have previously.

As Ara mentioned, it is in concert with the results we see today that we are increasing the share of our investments on AI and the software factory. We believe that increasing our focus on Max and AI will maximize the long-term value of ServiceTitan because we now have even greater resources invested in and running together towards the most important opportunity we have ahead of us. For example, we have advanced our investments in Max to include more Agentic Capabilities for Field and Office. Technicians are the backbone of the Trade businesses and we are continuing to make even larger investments in the capabilities we give to them, from AI Proposals to Voice based solutions.

Our multi-year growth markets like Commercial and Roofing remain important initiatives for us as we work towards becoming the market standard over time. To enable increased investments in and attention on Max, during Q2 we elected to tighten our focus on existing Commercial trades like mechanical, electrical, plumbing and landscaping, and Residential Roofing, rather than the planned expansion of our offering to new trades within Commercial or broader residential exteriors categories. We expect this focus on existing trades to allow us to execute on existing investments while also accelerating our shift towards Max and internal AI, addressing what we believe to be our most important opportunities today. Dave will discuss the mix shift implications of this trade-off shortly.

I am excited to speak at Pantheon about the compelling new outcomes that our customers will be able to achieve with AI - on to you Dave?

Dave Sherry

Thanks Vahe. Today, I will run through our Q2 financial results and provide an update to our guidance for fiscal year 2027. For more detailed financial results please refer to our press release issued earlier today.

Q2 Gross Transaction Volume, or GTV, was $26.8 billion, up 17% year-over-year. Normalized for business days and weather, which were roughly offsetting, GTV growth of 17% was about 200bps below recent quarters primarily due to lower job growth by existing customers. Our customers' lead volume grew at a more moderate seasonal pace during May and June compared to prior years before stabilizing in July, which was consistent with HARDI data. This was evident across the broad set of trades and markets that we serve, and it was particularly true for our HVAC focused customers. Looking forward, we have adjusted our second half forecast to reflect the more moderate GTV growth rate we saw during Q2, of course accounting for one fewer business day in Q3.

Given the momentum and growing importance of Max, before getting into Q2 financials, I'd like to outline how we expect Max to impact our P&L over time. Specifically, I want to provide some more color in four key areas:

First, in terms of addressable customers. Today, Max is primarily available for residential customers in the trades we call in-home: principally Plumbing, HVAC, Electrical, and Garage. As we said at this time last year, this grouping of customers represents our largest group of customers based on GTV, though not a majority.

Second, in terms of subscription uplift we see from our existing customers that enroll in Max. As we've noted before, at full contract ramp, subscription revenue roughly doubles relative to prior spend, driving an average platform earn rate just north of 2%. Now, we realize that not all of our residential in-home customers are ready to fully transform their businesses yet. We expect to launch packages that will be onramps to Max over time, which we expect to have meaningful uplifts in subscription revenue run rate - though not quite the same level as a full Max deployment. We will provide more specifics as these packages launch.

Third, we recognize revenue slightly differently for our core platform compared to our upsell products like Max and Pro. For the core subscription, we recognize revenue ratably over the term of the contract. For upsell, we recognize revenue as billed. Because Max requires such substantial change management, we typically do not bill for the first quarter of a contract and then ramp to full contract value through the first year or so. The momentum in Max, as well as our decision to focus our investments here and in existing trades, has led to a higher proportion of new deals coming from Max. We expect this changing composition and the timing difference of revenue recognition between core and upsell to be between a $2-3M subscription revenue headwind over the remainder of the fiscal year.

Finally, given both the required process change and the expected customer lifetime value increase from Max, we have elected not to charge existing customers an onboarding fee for the transition to Max. We expect the mix shift to Max to lower professional services revenue by roughly an additional $2M over the remainder of this fiscal year, which of course also flows through to Professional Services gross margin.

Shifting to Q2 financials. Q2 total revenue of $292.8 million grew 21% year-over-year. Subscription revenue of $212.4 million grew 22% year-over-year.

Usage revenue grew 24% year-over-year to $72.1 million. Fintech revenue grew well, though slightly below recent periods due to the more moderate GTV growth. Beyond Fintech, ecosystem and virtual agent revenue continue to perform well, with Virtual Agent revenue more than doubling quarter-over-quarter. We continue to believe AI monetization will lead Usage revenue to grow more quickly than GTV in FY27.

Total platform revenue for Q2 - the sum of subscription and usage revenue - grew 22% year-over-year to $284.5 million. Q2 professional services & other revenue was $8.3 million.

Net dollar retention was greater than 110% for the quarter.

Q2 platform gross margin was 81.1%, up 40 basis points year-over-year. Total gross margin for Q2 was 74.6%, up 20 basis points year-over-year. We continue to optimize for unit economics within our business.

Q2 operating income of $44.4 million resulted in operating margin of 15.2%, an improvement of 310 basis points year-over-year. The fact that we could deliver such strong margins in a quarter with modest GTV growth gives us increased conviction in the higher operating leverage of the business moving forward. As such, we now expect that 25% incremental margins will represent a floor each year, rather than a target, moving forward. And in this fiscal year, FY27, we now expect incremental margins of 33%.

Q2 free cash flow was $50.5 million, up 47% year-over-year. Year to date free cash flow of $40.9 million is up from $12 million over the same period a year ago. We remain focused on free cash flow conversion and expect that free cash flow conversion will remain consistently high again during the full fiscal year, as we saw last year.

Shifting to formal guidance

For the third quarter, we expect total revenue in the range of $285 million to $287 million. We expect to generate operating income in the range of $29 million to $30 million.

For the full year fiscal 2027, we expect total revenue in the range of $1.139 billion to $1.144 billion. We expect to generate operating income in the range of $152 million to $154 million.

We believe that our focused investments in existing growth markets and Max positions ServiceTitan for even higher quality, more efficient long-term growth. We're very excited to talk about the future of the trades during Pantheon this quarter; we're hosting thousands of customers and partners and while we are not hosting a formal investor event this year, we hope to see many of you there.

With that, I will turn the call back to the operator for Q&A. Operator?