

PagerDuty

Q1 FY26 earnings, May 29, 2025

PagerDuty's Chairperson and Chief Executive Officer, and Chief Financial Officer offer comments after the company released its First Quarter 2026 earnings.

The following are the prepared remarks provided on PagerDuty's Q1 FY26 earnings conference call held at 2 p.m. PT on May 29, 2025. These remarks include forward-looking statements that are based on the environment as seen by the company as of the time of the call and, as such, are subject to various risks and uncertainties. They also contain references to non-GAAP financial measures that the company believes provide useful information to investors. Refer to the company's earnings release for Q1 FY26, most recent annual report on Form 10-Q and other filings with the SEC for more information on the risk factors that could cause actual results to differ materially from the company's expectations and additional information on non-GAAP financial measures, including reconciliations where appropriate to the corresponding GAAP financial measures.

Good afternoon and thank you for joining us to discuss PagerDuty's First Quarter Fiscal Year 2026 results. With me on today's call are **Jennifer Tejada**, PagerDuty's **Chairperson and Chief Executive Officer**; and **Howard Wilson**, our **Chief Financial Officer**.

Before we begin, let me remind everyone that statements made on this call include forward-looking statements based on the environment as we currently see it, which involve known and unknown risks and uncertainties that may cause our actual results, performance, or achievements to be materially different from those expressed or implied by the forward-looking statements. These forward-looking statements include our growth prospects, future revenue, operating margins, net income, cash balance, and total addressable market, among others, and represent our management's belief and assumptions only as of the date such statements are made and we undertake no obligation to update these.

During today's call, we will discuss non-GAAP financial measures which are in addition to, and not a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. A reconciliation between GAAP and non-GAAP financial measures is available in our earnings release, which can be found on our investor relations website.

Further information on these and other factors that could cause the company's financial results to differ materially are included in filings we make with the Securities and Exchange Commission, including our most recently filed Form 10-K, as well as our subsequent filings made with the SEC.

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With that, I will turn the call over to Jennifer.

Jennifer Tejada, Chairperson and Chief Executive Officer

Thanks Tony. Good afternoon, and thank you everyone for joining us today.

In the first quarter, PagerDuty delivered revenue of \$120 million, representing 8% growth at the top of our guidance range. Our relentless focus on disciplined cost and investment management continued to yield results, with non-GAAP operating margin reaching 20%, exceeding our target by 500 basis points. Given the substantial progress we have made on optimizing our bottom-line performance, we have a clear path to GAAP profitability.

Annual recurring revenue increased to \$496 million, with 7% growth year-over-year.

Dollar-based net retention was 104%, reflecting higher than expected customer downgrades in our enterprise segment and elevated churn in our commercial business. These results reflect transitional dynamics in our go-to-market motion and are not at the standard we expect from ourselves. We are collectively committed to more consistent sales and marketing execution and efficiency and have taken immediate and comprehensive action to improve overall top line results. We did achieve significant improvement in net-new paid customers, driven by our new commercial digital acquisition strategy - leading to our largest increase in eight quarters.

While many of our enterprise relationships span several years, we are evolving our coverage model. We're moving from a tactical and transactional approach to building more strategic, cross-company relationships. This transition requires us to more effectively scale our pre and post-sale practices, including more comprehensive customer roadmap planning and more structured professional services and product adoption frameworks.

In addition, we must progress in leading with AI from a platform perspective and developing deeper and more senior relationships from a customer perspective. While we do this well in many large accounts, we can and will scale it more effectively. This is a critical focus for our sales, marketing and customer success organizations.

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Under the leadership of our new Chief Customer Officer, we're executing on this transformation through enhanced post-sale enterprise engagement. These improvements, combined with streamlined upgrade migration planning, will enable our enterprise customers to accelerate value realization while leveraging more of our platform. While these changes will take time, we're confident they will strengthen enterprise relationships and drive adoption of our advanced capabilities, including Enterprise Incident Management and our AI solution set, PagerDuty Advance.

Our platform's strategic value continues to resonate with customers, as demonstrated by expansion activity across approximately a quarter of our enterprise accounts in Q1. This broad-based expansion reflects the ongoing adoption of PagerDuty's Operations Cloud across our customer portfolio and provides a foundation for future growth as these customers mature in their digital operations journey.

A critical milestone in our enterprise sales transformation is approaching, as more than 60% of our enterprise reps will have been in their role for at least a full year by the end of Q2. This shift reflects our ongoing efforts to expand our sales rep profile to that of a modern enterprise, value centric sales executive. Based on our historical sales ramping data and the anticipated appointment of a new CRO, we expect the increased seniority and experience of our maturing sales force to drive meaningful improvement in enterprise contribution through the second half of the fiscal year.

We also strengthened our strategic partnership with AWS, announcing our collaboration agreement and expanding our integration capabilities earlier this month. Our platform now seamlessly integrates with Amazon Q Business, Amazon Bedrock, and AWS Incident Manager, serving nearly 6,000 joint customers. A compelling example is the TUI ["TOO-eeey"] Group, the world's largest integrated travel company, which achieved a significant reduction in incident recovery time through our integrated solutions, with the cost of a single disruption for an enterprise typically costing nearly \$800,000.

Our public sector expansion achieved [FedRAMP Low Authorization](#), enabling federal agencies to leverage our AI and automation capabilities while meeting stringent security requirements.

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We're actively pursuing FedRAMP Moderate authorization to further expand our public sector presence, where we already serve over 700 entities. In addition, we have engaged new partners to support our public sector strategy including federal, state and local entities.

We hosted [PagerDuty on Tour 2025](#), our global customer event series, in Q1, to drive demand for the back half of the year. Attendance increased 40% year over year, and we were pleased with the positive response to our expanded platform value proposition as well as the significant interest in our new AI products.

From a product standpoint, we are evolving our pricing to reduce friction and increase flexibility for customers to leverage all the products on our platform. The evolution of our pricing and packaging includes flexible enterprise pricing and the inclusion of AI and automation capabilities across all Incident Management plans.

Building on our Spring release momentum, we're expanding our AI offering through the partner ecosystem. Our new solutions leverage generative AI to automatically summarize incident notes and post-incident reviews, enabling faster issue resolution and organizational learning. Our new AI Scribe Agent leverages transcripts from Zoom and Microsoft Teams to help operations teams summarize calls for better execution faster resolution, protecting revenue and reducing costs. We remain on track to launch three additional AI agents this quarter, furthering our commitment to enhance operational maturity and effectiveness through AI and automation.

Our experienced enterprise sales reps routinely land platform commitments by leveraging the value proposition of the Operations Cloud. The traction we are gaining in the emerging native AI vertical, demonstrates that our platform is mission critical infrastructure for companies building and scaling AI operations. While we believe the TAM supports multiple winners, our roadmap of innovation and proven resilience at scale continue to differentiate us in the market, particularly given the significant greenfield opportunity ahead.

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Let me share a few examples that demonstrate our enterprise momentum in strategic sectors:

In the rapidly expanding native AI segment, a leading AI research and development company selected PagerDuty for a six-figure, multi-year commitment. This win underscores the platform's ability to support mission-critical AI operations including LLMs and agents while meeting the most demanding scale, security and reliability requirements. Their selection of PagerDuty over other vendors validates the strength and scalability of our enterprise-grade platform and strategic relevance in this transformative market.

In financial services, a major enterprise customer expanded their PagerDuty deployment with a significant six-figure upsell to an existing million dollar customer, as part of their operations modernization initiative. We successfully defended and expanded this relationship, winning against both established platform players and emerging challengers. This competitive win is particularly meaningful as this customer is known for early adoption of innovative technologies, and their selection of PagerDuty as their strategic platform for digital operations validates our market-leading position. The trust we've built through consistent platform performance and deep customer engagement, combined with our proven ability to increase engineering productivity at scale, enabled us to win additional business.

In a landmark land a global financial market infrastructure company, which processes quadrillions of dollars in securities transactions annually, chose PagerDuty for a seven-figure, multi-year digital operations transformation. This strategic displacement of several vendors validates our enterprise platform's unique combination of Ai,Ops automation, Incident management, customer service ops and differentiated value proposition in the most sophisticated operating environments. The customer's decision to consolidate their digital operations on our platform for automation and incident management exemplifies our market leadership in mission-critical enterprise environments where reliability and security are paramount.

Our international execution exhibited steady progress as well, evidenced by a major expansion with Europe's leading payment services provider and a competitive platform win with a prominent Japanese education leader, both representing meaningful six-figure commitments.

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During the quarter we continued to support our impact customers, including WatchDuty, a mobile app and web platform that provides real-time wildfire information and safety alerts in over twenty-two states to more than 16 million active users, who rely on PagerDuty to ensure we can support them in achieving their life saving mission. Our social impact work aligns with our mission to revolutionize operations and supports our ability to hire and retain great talent. We are progressing in meeting the sustainability requirements of our large enterprise customers, including achieving a 90% reduction in our Scope 1 & scope 2 carbon emissions against the FY23 baseline this quarter.

We recently welcomed [Don Carty](#) to PagerDuty's Board of Directors. Don brings deep operational and financial expertise from his extensive executive leadership experience, including his roles as Chairman and CEO of American Airlines and Vice Chairman and CFO of Dell. His deep understanding of enterprise transformation and operational excellence are invaluable as we execute on our platform vision and enterprise growth strategy. Our search for a new Chief Revenue Officer is progressing well, with several accomplished enterprise software leaders in advanced stages of consideration.

As we look ahead, we are focused on three key priorities:

- First, demonstrating product-market fit of our AI offerings through monetization;
- Second, enhancing our enterprise engagement model to drive improved retention and expansion within our strategic accounts; and
- Third, leveraging automation and AI within our own operations to scale more efficiently and accelerate our path to durable growth and GAAP profitability.

This balanced approach allows us to capture the significant enterprise opportunity ahead.

While this quarter's results reflect both organizational transitions and go to market execution challenges, we have taken decisive actions to strengthen our go-to-market motion and improve the return on sales and marketing investments. The fundamental drivers of our business remain strong, as PagerDuty continues to differentiate itself as the trusted enterprise-grade operations

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platform enabling customers to scale their AI and automation initiatives. We are confident that our enterprise strategy, combined with our demonstrated commitment to operational discipline and strategic capital allocation, will drive long-term value creation.

I want to thank our customers for their continued partnership, our shareholders for their support, and our employees for their customer focus and dedication.

With that, I'll turn the call over to Howard and look forward to your questions.

Howard Wilson, Chief Financial Officer

Thank you, Jenn and good day to everyone joining us on this afternoon's call.

Unless otherwise stated, all references to our expenses and operating results on this call are on a non-GAAP basis and are reconciled to our GAAP results in the earnings release that was posted on our [investor relations website](#) before the call.

Before reviewing our first quarter financial results, I want to highlight a meaningful inflection point in our business model transformation. More than 60% of our enterprise reps will have been with PagerDuty for at least a year by the end of the second quarter, reflecting our strategic investment in experienced enterprise talent focused on higher-value, more profitable customer relationships. Combined with our strong operational discipline, evidenced by non-GAAP operating margins of 20% this quarter, we expect these maturing investments to drive meaningful improvement in our financial performance and advance our steady progress toward GAAP profitability next fiscal year.

Moving to results...

Revenue for the quarter was \$120 million, up 8% year-over-year.

International revenue increased 11% annually, contributing 28% of total revenue.

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Annual recurring revenue exiting Q1 grew 7% year-over-year to \$496 million.

We delivered 104% dollar based net retention. DBNR was negatively impacted by lower gross retention in the enterprise segment. We expect dollar-based net retention to remain between 103 and 105% throughout fiscal 2026.

Customers spending over \$100,000 in annual recurring revenue was up 5% year-over-year, resulting in 848 by quarter end.

Total paid customers grew to 15,247 in Q1, adding 127 net-new customers - our strongest quarterly customer acquisition in eight quarters. This improvement was driven by targeted enhancements in our commercial segment, where we launched new digital acquisition programs and lowered the cost to acquire.

Free and paid companies on our platform grew to over 32,000, an increase of approximately 9% compared to Q1 of last year.

Q1 gross margin was 86%, at the high end of our 84% to 86% target range.

Operating income was \$24 million or 20% of revenue, compared to \$15 million or 14% of revenue in the same quarter last year. The outperformance compared to our guidance was primarily due to lower payroll and other personnel costs.

In terms of cash flow for the quarter, cash from operations was \$31 million, or 26% of revenue, and free cash flow was \$29 million, or 24% of revenue.

Turning to the balance sheet, we ended the quarter with \$597 million in cash, cash equivalents and investments.

On a trailing 12 months basis, billings were \$492 million, an increase of 7% compared to a year ago, in-line with our target for the quarter.

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With respect to Q2, we anticipate trailing 12 months billings growth to be approximately 7%.

At the end of Q1, total RPO was approximately \$430 million, increasing 11% year over year. Of this amount, approximately \$302 million, or 70%, is expected to be recognized over the next 12 months.

Now, turning to guidance.

For the second quarter fiscal 2026, we expect:

- Revenue in the range of \$122.5 to \$124.5 million, representing a growth rate of 6% to 7%.
- And,
- Net income per diluted share attributable to PagerDuty Inc. in the range of \$0.19 to \$0.20. This implies an operating margin of 17%.

For the full fiscal year 2026, we now expect:

- Revenue in the range of \$493 to \$499 million, representing a growth rate of 5 to 7%. This compares to the range previously provided of \$500 to \$507 million.
- And,
- Net income per diluted share attributable to PagerDuty Inc. in the range of \$0.95 to \$1.00 This implies an operating margin of 20 to 21%. This compares to our prior guide of \$0.90 to \$0.95 and 19 to 20%, respectively.

Looking ahead, our strong balance sheet, with nearly \$600 million in cash and investments, provides us significant flexibility to execute on our priorities while returning capital to shareholders through our \$150 million share repurchase program. This balanced approach to capital allocation, combined with improving sales and marketing efficiency as our enterprise reps ramp, positions us well to deliver improved growth in the second half of fiscal 2026.

With that, I will open up the call for Q&A.