

Dayforce
Second Quarter 2025 Earnings Conference Call
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Presenters

David Niederman, VP of Investor Relations

David Ossip, Chairman & CEO

Jeremy Johnson, Executive VP & CFO

Q&A Participants

Scott Berg - Needham & Company

Siti Panigrahi - Mizuho Securities USA

Mark Marcon - Robert W. Baird & Co. Incorporated

Jason Celino - KeyBanc Capital Markets Inc.

Mark Murphy - JPMorgan Chase & Co

Sheldon McMeans - Barclays

Steven Enders - Citigroup Inc. Exchange Research

Brad Reback - Stifel, Nicolaus & Company, Incorporated

Daniel Jester - BMO Capital Markets Equity Research

Jared Levine - TD Cowen

Jacob Roberge - William Blair & Company L.L.C.

Bhavin Shah - Deutsche Bank AG

Alex Zukin - Wolfe Research

Michael Turrin - Wells Fargo Securities

Operator

Good day, ladies and gentlemen, and welcome to the Dayforce Second Quarter 2025 Earnings Call. Our host for today's call is David Niederman, Vice President of Investor Relations. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. I would like to now turn the call over to your host, Mr. Niederman. You may begin.

David Niederman

Thank you for joining, and welcome to the Dayforce Second Quarter 2025 Earnings Call. I'm David Niederman, Vice President, Investor Relations. As a reminder, all participants are in a listen-only mode and a question-and-answer session will follow our opening remarks.

Joining me on the call today are CEO, David Ossip, and CFO, Jeremy Johnson. We also have Chief Strategy, Product and Technology Officer, Joe Korngiebel, and our President and COO, Steve Holdridge available for Q&A.

Before I hand the call over to David, I want to remind everyone that our commentary may include forward-looking statements. These statements are subject to risks and uncertainties that could

cause Dayforce's results to differ materially from historical experience or present expectations. A description of some of these risks and uncertainties can be found in the reports we file with the Securities and Exchange Commission such as the cautionary statements in our filings.

Additionally, over the course of this call, we'll reference non-GAAP measures to describe our performance. Please review our earnings press release and filings with the SEC for our rationale behind the use of these non-GAAP measures and for a full reconciliation of these GAAP to non-GAAP metrics. These documents, in addition to a replay of this call and also a transcript, will be available on the Dayforce Investor Relations website. And with that, I'd like to turn the call over to David.

David Ossip

Thanks, David, and thank you all for joining us. I'll begin with some high-level commentary on our results and outlook before handing the call over to Jeremy, who will provide more detail on our financials and guidance. We had a great second quarter and came in above the high end of guidance across all metrics. Most noticeably, Dayforce recurring revenue excluding floating on a constant currency basis grew 14%.

Adjusted EBITDA margin was up 420 basis points to 31.7%, and free cash flow in the quarter was \$87.1 million or 18.7% of revenue. Year-to-date, free cash flow was up 500 basis points to \$106.6 million. We continue to balance profitability and growth. We are targeting to grow Dayforce recurring revenue above 15% and we expect free cash flow margins to grow faster than we laid out at our Investor Day last fall.

This year, we have increased our free cash flow margin guidance from 12% to between 13.5% to 14%, representing an expansion of approximately 400 basis points year-over-year. And we believe we can achieve \$1 billion of free cash flow by 2031. Jeremy will expand on the levers we can pull to achieve this. Our momentum towards this goal is rooted in our deep cross-organizational focus on driving efficiencies and simplicity that yield value, both in our business and with our customers.

This begins with our sales cycle on our value proposition of consolidating an average of 12 systems to 1, which continues to resonate strongly with prospects. It also extends to how we push ourselves to move quickly to provide value for customers in our deployment as evidenced by our industry-leading retention rate and it absolutely applies to how we innovate our products, delivering greater productivity as we further our placement as the AI people platform.

I've seen this flywheel around simplicity, productivity and value come to life over the past year at our highly successful Dayforce Summit series where we host gatherings of prospective customers, partners, and existing Dayforce customers. The energy of the community and excitement around the product is palpable with an impressive conversion and close rate that gives us great confidence in the year as we move closer to our annual customer conference

Dayforce Discover in Las Vegas in October. We invite the investment community to attend and look forward to seeing many of you there.

Now more specifically on the sales front, Sam has created an operational machine that is firing across all segments with remarkable sales momentum for the third consecutive quarter. On a year-to-date basis, bookings have grown over 40%. New client bookings across all segments performed well in the second quarter, system integrator-led sales both outpaced overall sales growth and we are pleased with the traction our partners are gaining.

Additionally, our back-to-the-base sales strategy continues to succeed with sales to existing customers growing over 50% in the second quarter and representing 40% of total bookings. There is a significant opportunity in back-to-base sales. We have almost 7,000 customers live on Dayforce, but still have a relatively low penetration of modules in relation to our offerings. You can see this, in that our average PEPM is still only about \$13 across the base.

However, today, we have a full set of HCM offering, at the 1,000 employees per customer level payroll and time is about \$10 per employee per month. The talent offerings add another \$10 to manage another \$10 and our data capabilities, including the AI assistant, Experience Hub, Studio and Analytics add another \$10. We are seeing strong evidence of this in both new and add-on sales.

For new customers this year, 93% of our enterprise segment and 90% of major market segment, new sales were full suite. And Managed has been added to 17% of new business deals this year with bookings up over 100% versus last year. Over time, we expect to achieve much deeper penetration and see an increase in the average PEPM across our base.

This is important from two aspects. First, we have much higher sales productivity in back-to-base sales and second, the profitability of these sales is much higher. So as we execute this strategy, we expect to see higher EBITDA and higher free cash flow conversions.

Turning to our key business wins in the second quarter. We added several new large customers that we are excited to welcome to the Dayforce family, including a global leader in apparel expanded its relationship with Dayforce adopting a full suite to support its global workforce of 37,000 employees. For this customer, we are displacing at least eight different software vendors in a terrific validation of our value proposition. We will be helping them streamline their HR operations, enhance their workforce agility, reduce operational risk, and elevate their employee experience.

A leading US-based provider of essential infrastructure services selected Dayforce management payroll, workforce management, HR, and talent solutions to support its 10,000 employees across 45 states. This customer worked with over 300 different unions and the Dayforce platform will allow them to accommodate their complex reporting and tracking required by their employee organizations.

A large multinational industrial company selected the full Dayforce suite including Managed Payroll for a divestiture consisting of 3,100 employees. This customer selected Dayforce for our integrated system and to have the ability to access real-time data.

An energy service company with operations in the United States and Canada selected Dayforce to provide a wide range of HCM functions for its largely field-based workforce. This company needed a solution with an intuitive yet functional mobile user interface based on a single system. Additionally, this new customer is a great example of our summit strategy at work as they attended both our New York and Dallas summits.

And finally, in June, the government of Canada formally announced that they selected Dayforce for HR and pay transformation for its employees. We are very pleased with our work with the government of Canada to date and look forward to providing their people with a modern and effective HCM solution that will allow them to do their best work.

We also had a strong quarter of go-lives. We took live our largest customer today with over 300,000 employees and we expect this to be over 500,000 by the end of the year. I want to give kudos to our product technology team as well as our services team for their dedication and skills in making this possible.

We continue to bring new customers live on to Dayforce at a predictable and sustained pace. On the innovation front, we continue to deliver on our AI road map. And further cement Dayforce as the AI people platform. This consists of three core areas: first, integrating AI and intelligent functionality across the suite and delivering smarter functionality in every model.

This quarter, we delivered features including AI skills-based learning to deliver personalized, efficient people development experiences, enhanced skills requirements for shifts in workforce management to optimize scheduling and workforce productivity, heightened ledger management with advanced analytics and customer reports for streamlined HR communications, new total rewards in compensation management to simplify pay transparency and strengthen retention efforts, new Dayforce experience hub on mobile to provide seamless, intuitive experiences for frontline workers, and we added over 230 compliance updates to reduce manual effort and support regulatory alignment.

Next is our Dayforce AI assistant, which continues to gain significant traction with our customers. On both the second quarter and year-to-date basis, over half of new business wins also purchased Dayforce AI assistant. This early success is encouraging, and we are just getting started with our AI efforts. In addition, almost 100% of new business wins included our AI people platform, more than 80% of new business wins included our AI analytics, and nearly 60% of new business wins included our AI learning products.

And third is our Dayforce AI agent. Joe has a road map of over 30 agents that we are delivering on starting with our latest feature release available this month. This will include the availability of our Pay Discovery AI agent and our context to writer agent offering generative AI writing assistance across our platform including performance goals, job descriptions, self-assessments, employee feedback, health tickets, and writing support across our HCM platform. We are focused on delivering on our commitments here and are pushing forward as an AI leader as we continue to see interest in these offerings increase. I look forward to sharing more about what's to come at Dayforce Discover.

Getting back to our strong sales performance this year. We are seeing success because we purposely built Dayforce with a single data model with comprehensive capabilities from pre-hire to post retirement. This allows customers to replace a multitude of disparate HCM technologies with a single Dayforce solution. And this, in turn, provides our customers with a strong cash internal rate of return alongside a much better experience and decision making. You can see this reflected in our industry-leading gross retention rate of 98%, growth of add-on modules, and percentage of full suite deals.

From an AI perspective, this is immensely important, too, as to leverage foundational language and machine learning modules, you need and require well-formed comprehensive data. Dayforce is unique in market in this. We have a single database across all aspects of HCM. This has allowed us to move very quickly to embed AI across our entire platform. It's also the reason why our competitive win rate has improved significantly, driving tremendous sales momentum. Simply, customers understand that in today's age of AI, a single application with a single data model is fundamentally required and Dayforce is unique in this regard.

In closing, I'd like to leave you with five points that highlight our confidence in our future. We have a best-in-class enterprise-grade platform that has expanded from payroll and compliance offerings to a comprehensive full featured HCM suite, along with the road map for future development that we expect to extend our competitive advantage even further.

We are a clear leader in the large and growing HCM market and continue to widen this lead. We have a blue-chip customer base with thousands of the highest quality companies across virtually every sector. Currently, we are serving approximately 25% of the Fortune 500. With these advantages, we see the opportunity to build a generational HCM AI-powered software company and are keenly focused on making this a reality.

And finally, our people. Dayforce employees across the globe are some of the most talented seasoned and passionate people out there, focused on being the best HCM company in the world and creating a generational software company. To all our Daymakers, thank you for all you do for us every day. I'll now pass the call to Jeremy to discuss our financial results in more detail. Jeremy, over to you.

Jeremy Johnson

Thanks, David. We are pleased with our second quarter results. Top line revenue growth remains strong while we scaled the business and continued to expand cash flow margins. Total revenue was \$465 million, up 10%. Excluding float, total revenue increased 12%. And Dayforce recurring revenue excluding float was \$315.5 million, up 14%. Professional services revenue was \$71.6 million, up 23%. Operating profit was \$42.3 million compared to \$14.1 million last year.

Adjusted EBITDA was \$147.2 million, up 27%, or a 31.7% margin, expanding 420 basis points. Year-to-date net cash provided by operating activities was \$162.3 million compared to \$108.3 million last year. And year-to-date free cash flow was \$106.6 million versus \$53.9 million last year or an 11.3% margin this year versus the 6.3% margin last year expanding 500 basis points. We repurchased \$20.8 million of common stock during the second quarter bringing the year-to-date total to \$51.2 million or nearly 900,000 shares repurchased this year.

Turning to the macro environment. We believe the best indicator of the macro is the demand environment. As David mentioned, the demand environment at Dayforce remains strong with year-to-date bookings growth over 40%, a trend that has continued now for three quarters. We also have a great line of sight into employment levels at our customers. And we have seen a consistent trend of moderate growth in employment levels. We had estimated just under 1% growth and that is what we have observed. Foreign exchange rates versus the U.S. dollar across Canada, U.K., and Australia improved during the quarter, which we have updated and reflected in our guidance.

Now turning to our guidance. For the full year 2025, we expect total revenue of \$1.935 billion to \$1.955 billion, total revenue excluding float of \$1.749 billion to \$1.769 billion, an increase of 12.1% to 13.4% on a GAAP basis or approximately 13% to 14% on a constant currency basis reflecting the ongoing shift in professional services revenue to our systems integrator partners, Dayforce recurring revenue excluding float of \$1.324 billion to \$1.34 billion, an increase of 14.2% to 15.9% on a GAAP basis, or approximately 15% to 17% on a constant currency basis, float revenue of \$186 million, adjusted EBITDA margin of 32%, and free cash flow margin of 13.5% to 14% reflecting an increase from the previously issued guidance of 12%.

This increase reflects the impact of the One Big Beautiful Bill Act enacted by the U.S. Congress in July of 2025. The legislative changes are expected to impact our future cash tax remittances resulting from changes to tax deductibility rules for domestic research and development costs.

And for the third quarter, we expect total revenue of \$476 million to \$486 million. Total revenue, excluding float of \$434 million to \$444 million, an increase of 10.1% to 12.6% on a GAAP basis or approximately 11% to 13% on a constant currency basis. Dayforce recurring revenue excluding float of \$329 million to \$339 million, an increase of 12.7% to 16.1% on a GAAP basis or approximately 13% to 17% on a constant currency basis, float revenue of \$42 million, adjusted EBITDA margin of 30% to 30.5%.

We have great visibility into the back half of the year, and we are expecting Dayforce recurring revenue, excluding float growth rate in the fourth quarter of between 16% to 19%. The solid growth rate in the fourth quarter is driven primarily by beginning to see revenue related to go lives from our strong bookings over the past three quarters as well as beginning to see more revenue from the large deals we sold over the past few years.

Our whip (sp), meaning deals sold but not yet live, is the largest it's ever been and customers continue to go live predictably. Looking forward, we feel confident in our ability to achieve Dayforce recurring revenue excluding flow growth rates above 15% as we progress toward the long-range plan targets that we set last year.

As David mentioned, we are seeing a faster path to free cash flow expansion than we set forth at our Investor Day, and I'd like to expand on that. First, we are executing against our plan very well today. Year-to-date, our total revenue of \$946.5 million is up \$92 million, and our free cash flow of \$106.6 million is up \$53 million. That means incremental free cash flow margin on our incremental revenue is an impressive 57%. Our ability to convert incremental revenue into free cash flow is what ultimately gives us confidence in our ability to continue to drive free cash flow margin expansion well into the future.

Second, we are confident in our ability to scale the business as we drive technology, automation, AI adoption, and the use of cost-effective jurisdictions. And third, as I mentioned previously, we will get a benefit from the One Big Beautiful Bill Act changing the tax deductibility rules for domestic R&D costs which provides us with about a \$40 million to \$50 million benefit to cash taxes this year and about a \$20 million benefit to cash taxes in 2026 and beyond.

Ultimately, we are confident in our path to achieving \$1 billion in free cash flow by 2031. Finally, we are in the final stages of terminating our frozen defined benefit pension plan and BEP pension plan, as I previously had announced last year. If you recall, these are legacy pension plans that Dayforce inherited from Ceridian and its predecessors. We expect these termination processes to conclude in the third and the fourth quarter of 2025, respectively.

As a result of the terminations, we expect to have the following financial impacts, which are included in our cash flow guidance and our raised free cash flow guidance from 12% to between 13.5% to 14%. In the third quarter, a cash charge in the range of approximately \$30 million to fully fund the plan and terminate the defined benefit pension plan, a noncash expense of approximately \$205 million as a result of the recognition of previously deferred losses related to the defined benefit pension plan investments, and in the fourth quarter, a cash charge of approximately \$5 million to fully fund and terminate the BEP pension plan and a noncash benefit of approximately \$3 million as a result of the recognition of previously deferred gains related to BEP pension plan investments.

The cash charges will flow through the cash flow from operations and are included in our free cash flow guidance. The noncash charges will flow through other income expense line on our P&L

and will have no effect on EBITDA and has no impact on ongoing business performance or long-term cash flow generation. With that, we can begin the Q&A portion of our call.

Operator

At this time, we will conduct the question and answer session. If you would like to ask a question, please press "*" then the number "1" on your telephone keypad now and you will be placed in the queue in the order received. We ask that you please limit yourself to one question before returning back to the queue. Once again, to ask a question, press "*" then the number "1" on your telephone keypad now. We are ready to begin. Your first question comes from Scott Berg with Needham. Your line is open.

Scott Berg

Hi, everyone. Nice quarter, and thanks for taking my questions. David, I wanted to follow up on your statement on sales growth outpacing, I guess coming from your SI partners outpacing the rest of the business there. I guess, what are you seeing in terms of, I don't know, deal sizes, customer segments, modules that are being bought by customers coming in through those channels versus maybe what you're selling directly? Just seeing if it's something different in the rest of the business or, I guess, if it's similar. Thanks.

David Ossip

Hi, Scott. Thanks for the question. Let me start off with the actual numbers. SI-led sales were up 18% for the first half of the year, which is obviously exceptionally positive. If you recall, what we're finding is that the single data model that we have is giving us two strong advantages in marketplace. First, it allows the 12:1 simplification across the different modules. And as we've spoken about previously, very strong cash IRR for our customers as they get their efficiencies, improve their experience and the decision making.

The second part of that is because we built Dayforce for the single data model. That gives us a very strong advantage from an AI perspective because to do anything well with AI, you need very well-formed and we have that. From, what we're actually finding is that we're getting very strong full suite attachment rates whether it be direct implementations or deals that are sold alongside the SI.

Again, the numbers over there are very strong. Overall, full suite deals of new business was up-- sorry, was 19% on average in the quarter. When we look at the enterprise segment, again, that's about 3,500 employees per customer that had an attachment rate of 93%. In majors, it had 90%. SI finding are active on all segments of the business. And so you would expect that what they're implementing is the full HCM product from pretty hire to post retirement.

Operator

Your next question comes from Siti Panigrahi with Mizuho. Your line is open.

Siti Panigrahi

Great. Nice quarter with balanced growth and also good free cash flow. David, good to see the strong bookings growth, 40% plus in last three quarters. So how should we think about these bookings translating to revenue? Mainly, what kind of initiatives you are taking to handle smooth go-lives? Are you partnering with an SIs? Or are you--do you have any other plan there? And also, when you think about the strong back-to-base bookings versus new, should we see the go-live of the back-to-base faster than new bookings?

David Ossip

Thank you. Siti, thanks for the question. As you know, on average it takes about 12 months to onboard a new client, and you are correct that the add-ons happen quicker than when we do a net new client. From an SI perspective as I mentioned, SI-led sales were up 80% and in the second quarter 45% of new sales are SI led, which is up from 35% of last year. So we're finding that to be very successful.

When we actually look at what's driving the 40% plus ACV growth, sales growth year-over-year, there are a number of our specs. Again, first full suite sales are now about 90% attachment rates. We're finding AI, the attachment rate now is above 50% on new sales. Client-based sales, these are the add-on modules, is now at 40%, which is up 50% year-over-year. Managed is now 17% of new business, which is up 100% year-over-year.

And so very strong sales momentum from a number of different convergent reasons again tied, we believe, to the single data and single application solution we have which gives us a really differentiated solution in market, both from a 12:1 simplification and from an AI perspective.

Operator

Your next question comes from Mark Marcon with Baird. Your line is open.

Mark Marcon

Hey, good morning. Congratulations on a strong quarter. Wondering if you can talk a little bit more about the various AI products that you're introducing. It sounds like there's a big slew of them, probably more than any of your competitors from the sounds of it. I'm wondering what percentage of those are you charging for? And what's the pricing for those? And what's the opportunity to go back to the base and reintroduce your current clients? And then lastly, if I could squeeze one in, I missed it if you talked about it, but any updates on the U.S. Federal Contract? Thank you.

David Ossip

Great. Thank you. On the U.S. Federal Contract, we haven't provided an update that the project is going well. We did, though, provide an update on the government of tender contract and their announcement that they have selected Dayforce as a go forward for the next-gen HR and payroll solution and obviously very, very proud of that.

And we also spoke about the very large accounts that we took live in the quarter. I believe it is now up to 300,000 employees on a single Dayforce instance that grows above 500,000 by end of the year. I believe that's probably the largest cloud-based payroll solution that operates really truly at scale and something that we're very proud of from a product and technology as well as from a service perspective. And for all of those Daymakers listening, thanks a ton for that.

On the AI side, yes, there's a tremendous potential to go back to the actual base. We are launching a wide range of AI agents, about 30 or so that Joe will be showing and discussing at Discover, which is our client conference in October. Already, we have AI embedded in a number of our products. For example, the learning management product is, as you know, AI powered.

We have the AI agent there which is able to create course content in a (inaudible) compliant manner. We have the AI textual system, which is across the application which helps with everything from performance reviews to job descriptions, et cetera. We have the AI assistance with inside the talent acquisition side which allows us to do the grading of employees--sorry, of candidates, the job matching, things towards that nature.

We have AI improvements embedded in our forecasting engine. We have it in the analytics; we do predictive forecasting of the various types of measures. When I look at the overall PEPM of the Dayforce clients which is really probably the most important, average PEPM across the 7,000 customers is around \$13 per employee per month. We have though a full suite HCM system which, if I look at just the talent modules, that adds a potential of another \$10 across the base.

Managed, which is gaining great traction, and remember, our Managed margins are pretty much the same as our cloud margins, managed is now 17% of new business, which is up at 100%. So great potential. And then data, which includes AI, currently is at 10. And as we roll out more of the agents and the agent service as well, we believe there's a strong potential to increase the AI capability and as well what will be charging our clients.

Operator

Your next question comes from Jason Celino with KeyBanc Capital. Your line is open.

Jason Celino

Hey, great. Thanks for taking my question this morning. Maybe just one for Jeremy. Nice to see the benefits from the OBVA, sounds like this will affect your cash tax remittances going forward, but curious how much of your R&D operations are based in the U.S.? And then on a go-forward basis, would this also translate to benefit on the non-GAAP tax rate? Or--just curious on those details. Thanks.

Jeremy Johnson

Yes. Thanks, Jason. It's good to hear from you. Look I think we were pretty pleased to see the benefit that we're going to get from the OBVVA. The domestic change--the change to domestic R&D from--move from five-year capitalized to immediate expensing, that's really the most

impactful piece of the act that was put forth. With this change, we can begin to expense immediately the R&D--domestic R&D costs. So for us, that will result in as we talked about a \$40 million to \$50 million benefit this year from a cash taxes side of things.

So we do have a decent portion of our domestic--of our R&D domestic. We also have some in Canada, but we have a good chunk in the U.S. as well. On an ongoing basis, we expect that the benefit of this bill will be about \$20 million just from immediately expensing as opposed to our original kind of long-term assumptions, assuming that we would spread that out over five years.

So there's a nice benefit inside of there, and that allowed us to had the confidence to increase our full year free cash flow guidance from 12% of revenue to 13.5% to 14% of revenue. And I think it also is one of the factors that goes along with us having a lot of confidence in our long-range plan targets, and we feel very confident in our ability to achieve that \$1 billion in free cash flow by 2031.

It's not just the tax changes here that are driving that. I think if you look at our success that we're having in driving free cash flow outside of this year-to-date. And I said it in my scripted remarks, I'll say it again, our year-to-date revenue is up just over \$90 million and our year-to-date free cash flow is up just over \$50 million. And so incremental 57% margin on our revenue there on the free cash flow side.

So we are getting a benefit from our operations, from scaling our operations, and we're really pleased with what we're seeing across automation, across driving technology changes and process changes in our organization and then the early stages of AI and the investment that we're making there. So we're feeling bullish about our ability to hit those long-range plan targets.

Operator

Your next question comes from Mark Murphy with JPMorgan. Your line is open.

Mark Murphy

Thank you so much, and I'll add my congrats, David and Jeremy. The bookings growth of 40% is just very, very impressive. We realize each company tends to define bookings slightly differently. Is there any way to dimensionalize that figure and help us understand how that might affect the Dayforce recurring revenue growth in terms of magnitude when that booked business begins to go live, say, perhaps a year down the road? I think you're giving us a look at that a couple of points of uplift by Q4. I'm just wondering a little around the corner, like, what is the overall uplift or magnitude of that? Any kind of framework that would help us roll it forward in our models?

David Ossip

So first part of your question, when we talk about ATV as annual contract value, we're looking at the amount of recurring revenue that we sold and we take the monthly amount and we multiply by 12 to get an annual contract value of recurring revenue. And that number is up more than

40% year-over-year and was consistent with what we saw in terms of the growth rate in Q1 and as well in Q4. So we're very, very happy with that.

And again, Mark, the reason, again, is more full suite deals above 90%, AI attachment, our client-based sales at 40% or up 50% year-over-year, managed being sold now at 17% of new business, up 100% year-over-year so all very, very good. We haven't yet done now modeling for 2026. You can see some of the benefits on the probably last year Q4 coming in towards the end of the year. And you can see that with the acceleration of the Dayforce recurring revenue. There is some seasonality to the business. So give us a bit of time before we come out with our '26 guide.

Operator

Your next question comes from Raimo Lenschow with Barclays. Your line is open.

Sheldon McMeans

Hi. Good morning. This is Sheldon McMeans on for Raimo. Thanks for taking our question. David, I wanted to ask more on your 12:1 story. Historically, in the space, it seems the system consolidation idea has had more success in the mid-market with larger customers being more willing to integrate systems in the best-of-breed versus the suite preference swings of macro conditions.

It seems traction for you is picking up across all segments. So I would love to hear if you could speak to if you're seeing this trend as more of a cyclical dynamic as companies look to be more efficient? Or is this more structural due to some of the factors you discussed like AI highlighting the value of a single database? Thanks.

David Ossip

Sheldon, the market demand for a single system, I believe, has always been there. It ties to the research we did at the very beginning when we started Dayforce and we found that there was a disconnect between what the CEO expected from an HR system versus what was actually implemented across the organization. The CEO had expected one system for all things around their people. In reality, we found, on average, a typical organization would have 12 different components in their HR stack with different databases, user experiences linked to batch-based, and very efficient processes.

As you know, we built Dayforce starting with compliance modules. We started with Pay at time because we found that the life of contract or the life of a customer for the compliance modules was effectively endless and the idea was to get a very strong foundation in compliance. And as you know, we are ranked #1 by Gartner in that regard, and once we had that to extend the product into a pretty high post-retirement end-to-end solution. And I think we've done that very successfully especially with the help of Joe and his team. We've been in the Gartner Magic Quadrant now for at least five years as a leader for full HCM divisions.

We're finding that the 12:1 messaging resonates for a few reasons. First of all, it allows a customer to reduce the total aggregate subscriptions that they're paying where they go from 12 different systems to 1 system, Dayforce. Second, they don't need as many full-time people maintaining all those disparate technologies and they don't have to have resources and platforms to do interoperability and as well to do reporting. So there is a very strong cash IRR.

The second aspect is when you bring it together the experience for all users, whether it be the frontline worker, whether it be the frontline manager, whether it be specialists such as in HR and Payroll and Talent or whether it be executives, you're looking at the overall experience. And because the data of altogether, you have much better decision-making, much better analytics and it gives us a very strong advantage in AI because, as I mentioned, in order to leverage AI, you typically are finding that the foundation language models are evolving very quickly, but are relatively similar. But having access to well-formed data allows these foundational language models really to give really great insights and answers about that data.

The other vendors do not have that. All of the other vendors typically have different databases, partner solutions, add-ons, bolt-ons, et cetera. And that makes it almost impossible because, remember, to answer questions about your people, you have to do it in a way that you adhere to privacy and as well to very complex security in a data effective transitioning environment. And we can provide that where the others can't. And I believe that combination of that cash IRR, combined with the capabilities that we can deliver across AI has led to a very strong win rates and the sales momentum that we're seeing.

Operator

Your next question comes from Steve Enders with Citi. Your line is open.

Steven Enders

Okay. Great. Thanks for taking the questions here. I guess I just wanted to ask just in terms of--I mean, it seems like the demand environment is strong, but just maybe what you're seeing across enterprise, mid-market, and maybe on top of that what you're seeing in the pipeline across those different segments as well. Thanks.

David Ossip

Again, we've seen a very strong buying environment. I remember this is consistent with the last few quarters as well. You see year-over-year sales growth above 40% is really, I think, a special time. So we're seeing great success. I believe that Sam has built a really an operational machine when it comes to sales and when we pair that with the 12:1 simplification and the very strong AI capabilities that Joe has enabled has allowed us really to just drive a lot of sales, a lot of really good decision-making. I don't see a difference between the segments that we play in.

And again, we typically don't play below, say, the 500 employee level. So we're talking 500 employees and above. And we've seen a lot of success whether it be in major markets, enterprise,

large enterprise in the U.S., in Canada, across Australia and New Zealand, across the U.K., across Germany. So for us, it's been a very good sales environment and demand environment.

Operator

Your next question comes from Brad Reback with Stifel. Your line is open.

Brad Reback

Great. Thanks very much. David back in the macro, though, can we go a little deeper? Totally understand the strong demand signals out there, but a lot of the data that we're seeing reported seems to suggest the economy is slowing a bit. And you all have very real-time data as it relates to punching, hours worked, over time, et cetera. Anything you've seen recently that would cooperate the government data or actually run counter to it? Thanks.

David Ossip

We're seeing employment levels are up about 1% year over. So they are up, but they are up less than what I'll say we've seen historically. Historically, it's been about 2%, Remember that we play in frontline worker organization. So where we have the most amount of success and where we have our customers is really around hospitality, retail, manufacturing, logistics, extended health care, and these are all segments or verticals where you typically find that AI is not going to have or haven't had much of an impact, for example like hospitality.

We already are talking about the people who maintain and clean the rooms the people who work in the restaurants to do the dishwashing, they do the landscaping, the maintenance. When we talk about retail, we're talking about the people who help move the goods off the actual trucks into the store warehouses and onto the shelves and do recovery and do loss prevention and et cetera.

So the segments that we focus on, I think, are still growing very well. I would argue that some of the administration's decisions of really bringing a lot of the manufacturing and jobs back to the U.S. benefits us and provides us with a bit of a tailwind in terms of the industries that we serve. Because of our strong differentiation not only on the data in the 12:1, but remember we are quite unique in our ability to do the compliance calculations. That single pay on time, continuous engine is still a very, very strong differentiator, the ability to handle very complex selective bordering agreements to pay people accurately and on time is really resonating in market.

Operator

Your next question comes from Daniel Jester with BMO Capital. Your line is open.

Daniel Jester

Great. Good morning, everybody. Thank you for taking my question. Maybe two quick ones for Jeremy. First on the updated free cash flow guidance. I've been trying to sort of do all the numbers while we've been going on the conversation today. And I just want to confirm, you talked about underlying efficiency. There's also some FX and then there's the OBBA impact.

I just wanted to confirm, are you actually in the increase in the free cash flow margin, does that see some underlying efficiency in the improvement, or are these other factors like FX and OBBA, the biggest drivers of the full year increase? And then just secondly, if I could squeeze it in. On the third quarter, Dayforce recurring constant currency ex float guidance of 13% to 17%, maybe why is that range so wide? And what are the factors that get you to the top and bottom end of the range? Thank you so much.

Jeremy Johnson

Yes. Thanks, Dan. It's good to hear from you. Look, I think it's important to see in our free cash flow guidance that we last year were at about 9.7% free cash flow margin. And our original guidance already included some pretty significant expansion from the productivity we're seeing in the business. That was to 12%. We are seeing that and we will continue to see that. The expansion that goes from 12% to 13.5% to 14% is largely driven by the tax changes and the One Big Beautiful bill but it's important to note that we are still seeing some really nice expansion on the free cash flow side of things.

I think what I would look at is our trajectory on free cash flow has gone from very low single-digit free cash flow margins to now into the mid-teens and we have kind of talked about this \$1 billion free cash flow target by 2031, which implies some pretty significant efficiencies as we move forward. And we're feeling really, really confident, more confident than ever in our path to achieving those. So feeling good about that.

The recurring revenue side of things, Dayforce recurring revenue, our guidance has a \$10 million range that just happens to be a \$13 million to--it looks like 16% range on a constant currency basis. So that's kind of how the numbers work when you have a \$10 million range. The full year guidance has a \$20 million range, which happens to be a 2 percentage point range, it's 15% to 17%, and that's holding with where we have previously said.

So a lot of confidence and visibility into the back half of the year. The demand trends, as we talked about a number of times on this call are very strong and you're beginning to see that flow through into the back half and really in the Q4 Dayforce recurring revenue guidance. I would ultimately say all the sales success we're having right now gives us a lot of confidence into our long-range plan targets of that 15% Dayforce recurring revenue growth for the long term.

Operator

Your next question comes from Jared Levine with TD Cowen. Your line is open.

Jared Levine

Thank you. In terms of the professional services and other revenue attributed to reducing the ex-low (sp) constant currency guide for the year, can you dig in some incremental color on what drove this and your confidence on visibility here going forward?

Jeremy Johnson

Yeah. We are seeing greater success across the SI strategy, and that's really alongside the overall strength in professional services from our strong demand environment. Remember, professional services should be viewed as an early indicator of success on the recurring side of things. Remember, year-to-date professional services revenue was up about 32%, and that reflects the overall improvement in the demand environment that we've seen over the past few quarters and executing on some larger deals.

David Ossip

If I could add, sales are up 40% year-over-year. And one of the reasons for that is the partner ecosystem that we've developed over the last number of years. What we're seeing is that on the new bookings, which is up--SI-led sales, where they're involved, is up 8% year-over-year and 45% of our new business projects are being led by the SIs, which is up from 35% of last year.

So the SI success--remember SI success from their perspective, is how much work are they doing on the Dayforce platform. (Inaudible) factors into that professional service number and we see it as a very positive sign in terms of the ability to grow Dayforce recurring revenue.

Operator

Your next question comes from Jake Roberge with William Blair. Your line is open.

Jacob Roberge

Yeah, thanks for taking the questions, and congrats on the continued momentum on the sales bookings front. Great to hear. And nice to see that the government of Canada continues to move forward with their deployment. Can you help us understand the phasing of that contract and how it should layer into Dayforce recurring revenue this year and in the next year?

Jeremy Johnson

Yeah. So remember, we--as we continue to work through the government of Canada, we signed about a \$15 million deal last year. We've kind of worked our way through about half of that with the remaining still to come through the back half of this year. As we deliver, we will continue to recognize the revenue, but it kind of phases through the back half of this year. So we're halfway through and what we booked last year in the second quarter, and we've got about half way to go. Steve, anything you'd add on that?

Stephen Holdridge

Yeah. And we're tracking to the plan that we've talked about. We expect in '26 to move from configuration and design into the early phases of implementation.

Operator

Your next question comes from Bhavin Shah with Deutsche Bank. Your line is open.

Bhavin Shah

Great. Thanks for taking my question. David, you've spoken about very healthy bookings growth for the last three quarters at near 40% and, yeah, strong win rates. How are you thinking or rethinking maybe your sales strategy? Are you kind of leaning into hiring more given the success you're seeing? Or are you kind of okay where you're at?

David Ossip

Bhavin, as you would expect, we're leaning in. We're hiring additional sellers, particularly in our major markets and our client base sales area seen really tremendous growth, as you would expect in both of those. So yes, we're investing more in the actual ability to convert pipeline into deals as well as to build top of funnel. We still believe we're very early on both in terms of market penetration as well as there's tremendous opportunity across our client base and we're getting tremendous success from that.

Operator

Your next question comes from Alex Zukin with Wolf Research. Your line is open.

Alex Zukin

Hey, guys. Thanks for taking the question. I guess it feels like--I want to understand one thing. It's very clear from your RPO, which it feels like is the strongest we almost ever seen both sequentially and year-over-year from acceleration perspective and dollar value added, but the bookings are really strong. I guess what I'm trying to kind of figure out is why was Dayforce recurring revenue in the quarter kind of sequentially down on a percentage basis more than it has been in many years?

And then the--you're re-guiding to a metric in Dayforce recurring that you stopped guiding to for Q3. The range is a little bit wider than historical periods. And then the range for the year implies a pretty meaningful acceleration. So does it--is it fair to assume that as your size of the book of business is growing the time--like your actual predictability on which quarter the go-lives happen there's more maybe back-end seasonality associated with it or linearity is a little bit changed. Just help us understand those moving pieces.

Jeremy Johnson

Yeah. Alek, good to talk to you. Remember, in Q1, our Dayforce recurring revenue grew 16% in constant currency. And in Q2, that was 14%. And we talked about this quite a bit last quarter and that we're feeling a bit of just the air pocket from not having 40% sales growth over the past few years. And as we started to have that success, we've talked about that. In the back half of this year, you will start to see the benefit and some benefit from having success on the sales side of things.

So that guidance range that we kind of hold at 15% to 17%. We have a really good amount of confidence in--the reason we're guiding again to the Dayforce recurring number is because if we guide to Q3, you can back into Q4 and so we wanted to be explicit about the numbers and just

make sure that everyone knew a 13% to 16% in Q3 grows to about a 16% to 19% in Q4 and you start to see the benefit of those bookings and coming out of this little pocket that we're in.

Operator

Your next question comes from Michael Turrin with Wells Fargo. Your line is open.

Michael Turrin

Hey, great. Thanks very much. Appreciate you taking the question. I realize it's a bit of a lagging metric, but the go-lives in the first half have trended in the 50s each quarter. And clearly, the commentary on bookings and what you're expecting into the rest of year sounds fairly strong. So just any additional commentary you can provide to help bridge those. Is it just the customers are larger and so that metric becomes less useful? Or how you're expecting just the mix between new and existing customers' trends rest of year is helpful as we're just unpacking that a bit. Thank you.

David Ossip

Yeah, that's a great question, Michael. But there are a few things. Remember that we're focusing our business really on that 500 and above market segment. And in the number that we talk about, it's a net number. So there are some smaller customers that quite honestly it might not be a great fit for us. We would count one of those customers equivalent to see that large enterprise customer that went live with 300,000 employees.

So that metric we report is from a continuation perspective, but it doesn't really have much meaning on the business. The focus is required because it allows us to get much higher sales productivity across the Sam's organization and allows Joe to focus on the product and technology side on a very well-defined market. And in Steve and Chris' organization allows us to build more automation and leverage AI to get really efficient around the onboarding and the experience of the actual customers.

In addition, we have built up the client base sales. Remember, we have 7,000 customers which, as I said, very kind of low pattern penetration and just a tremendous white space opportunity across the client base. So what Sam has done over there to build out a really well-functioning client-based sales team, obviously empowered by all the great product that Joe put together, really allows us to drive that.

The one point that I'll probably end with is that Jeremy spoke about this from a free cash flow perspective. Year-to-date Dayforce recurring revenue is up about \$90 million, just over \$90 million. And of that, the contribution in terms of free cash flow from that \$90 million of added revenue is above \$50 million or 57%. So I believe the strategy is very sound. And remember, as I said at the very start of my script, the goal here is to generate over \$1 billion of free cash flow by 2031. And in order to do that, we want to see Dayforce recurring revenue grow at about 15% to get there while increasing the free cash flow conversion quite rapidly.

Operator

This concludes the Q&A session and today's call. Thank you for attending, and have a wonderful rest of your day.