Company Name: AvePoint, Inc. (AVPT)
Event: 1st Annual D.A. Davidson Technology & Consumer Conference
Date: June 10, 2025

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Hello, my name is Rudy Kessinger. For those of you who don't know me, I cover cybersecurity and infrastructure software here at D.A. Davidson. We have AvePoint with us today. To tell us a bit about their business we have Mario Carvajal, Chief Marketing and Strategy Officer; and Jamie Arestia, Head of Investor Relations. So, thank you. Thank you guys for joining us.

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Thank you, Rudy.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Thank you. Great.

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Thank you so much.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Mario, I think, you know, for those of you in the room who are maybe a bit unfamiliar with you guys, just start off just an overview of AvePoint, what you guys do, the problems you solve for your customers, and I think that let's just start there and roll with it.

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Yes, sure. Well, so first, thank you, Rudy and the team for having us and thank you all for joining us for this session. AvePoint is a software business. We are primarily focused on human generated data, which we call unstructured data. Think of the data that many of you produce every day, whether it's emails, transcripts, documents, and it represents 80% of the data that's being created specifically now with even GenAI. And so our focus has been to deliver a comprehensive platform that introduces security controls to manage the data through its life cycle. And we also have included the ability for you to manage the data, especially as organizations are looking to share data with external sources. Secure file share is a big problem for organizations and also the ability for data owners to be fully empowered to not only understand when data is being shared, but to share data seamlessly.

And so our comprehensive platform has been offered to organizations in the industries that are regulated for many years and we continue to do so. Also within the channel community, there are a lot of partners that we work with that help us bring the product to market and we have specialized a lot of those capabilities for their needs as well. We are a global business. We've been fortunate to bring our products into three segments of the market, the enterprise, the mid-market, and SMB. And we play in all the major software markets and that gives us a really nice opportunity to understand the compliance needs of data in the global context. And we infuse all of that into the platform so that we can help. Primary buyers would be your CISO, your Chief Data Officer. We tend to work extensively with the CIO office as well as we bring in our products. And last but not least, on the channel side, we are working extensively with managed service providers, which are the types of partners that are taking over a lot of the IT operations for small medium businesses.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Could you take it a step further and maybe talk about the three product suites that you have across backup, governance, security, and in particular those are typically different vendors that would sell kind of one of those to a customer. What is the advantage of having all of that through a single platform? And what unique value proposition does the customer get from going through an AvePoint versus three different point vendors for those solutions?

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Yes, Rudy, one of the things that we did was we approached the design of the platform thematically. We have three major suites. They're called Resilience, which is an area of capability that focuses on the continuity of information. We address key workloads for backup and recovery. We also address the workload of archiving data, as well as helping organizations apply retention policies that dictate when your data should be moved and where it should actually reside. We have the Control suite, which complements the Resilience suite. And it's an area in the platform where you're able to introduce the guardrails for the way information is being managed. We have a set of capabilities that give the organization policy enforcement at scale.

An example of a policy would be when organizations want to share with their supply chain partners, how does the system identify where sensitive information may be so that your supply chain partners don't inadvertently get access to information they shouldn't have access to. So this policy mechanism at scale has given organizations the ability to not only address it across the supply chain partners, but also across different productivity tools systems like Microsoft 365, Google Workplace, Box, Dropbox and the like.

In the Control suite, we also incorporate the ability to govern the data. A governance framework is super critical, especially now, where you're not only governing the data, the user access, but you're also governing the container where the information is stored. So our governance framework looks at the container where data is stored and it also applies a lot of metadata values that give the organization the proper classification of how data should be managed. And then the last bit of the control that also is working quite well for us is it allows you to discover and investigate the data and identify where you have risk, overexposed data or data that could be externally shared or shared inadvertently with someone in a different department that shouldn't have access to data. So the ability to not only address the data at scale from a policy mechanism, but also remediate the problem is all part of the Control suite.

And the last suite we call the modernization suite. We've been in business for several decades and we began to help – by helping organizations move data from legacy systems. So over the years, we've built a connector framework of over 30 connectors. And what we're doing there is we're modernizing the data without losing fidelity on the data. It's a way to move data in and out of different cloud providers and it helps the organization in many cases, even now get ready for AI capabilities. We also introduced in the modernization mechanism for end users to also be involved in the process. We see more and more IT organizations don't want their knowledge workers to have to wait for tickets by a central IT team to solve their problems.

So we have empowered the knowledge worker with information about the data that they're actually working on, that they're producing, so that they could also participate in this governance of data. So that governance model, as well as the continuity of data and as well as the modernization of data is how the three suites thematically come together. And most of our customers are on different phases in their journey. So it gives us an opportunity to really bring customers through any one of the three suites.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Yes, I know you guys historically have been very focused on the Microsoft realm and the productivity apps and whatnot that come with it. What does the product roadmap look like over the next few years in terms of GCP, AWS and expanding your coverage to other cloud providers, not just their productivity suites, but maybe some of the non-productivity applications. Is that something on the roadmap? And when we think about like the $1 billion ARR target by 2029 versus about $350 million today and we'll get to that in a second, to hit that target, does that – is that dependent upon a certain percentage of the business coming from GCP and AWS and diversification away from Microsoft state?

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Yes, sure. Well, you put several things in there, I'll try to address them all. We began building our platform in Azure. 2009 Microsoft approached us and said we're looking for vendors to build products in a cloud infrastructure and we're curious as to how you would monetize those products. So it was a natural fit for us to start building a cloud-centric platform. And so today, we're able to bring that platform to market in over 14 data centers worldwide out of Azure. This does several things for us. That number one, allows us to work right next to the Microsoft tenant that – that customer may have and this allows us to offer performance at scale.

Through our work with multinationals, we also felt an opportunity to help them when they're using multiple cloud providers. So we began working in support of Google Cloud several years ago and we started first supporting Google Workspace as a repository of data, Google Drive, and most recently it made sense for us to bring our platform and run it out of the Google Cloud. So we are running our platform in Google Cloud as well GCP and we also offer the opportunity for clients to run it out of AWS infrastructure.

So the fact that we can operate in the three different hyperscalers works very well in the regulatory environment. There are companies that for a specific reason or other – on the security side would like to have the opportunity to store data in different hyperscaler data centers. So through our platform you can do all of that. We tend to be more than just supporting those three hyperscalers. We could also support additional cloud providers like Salesforce, Box, Dropbox and that's because our application on the productivity side, in order to deliver all the capabilities I mentioned before in the suites, we could also apply that to all these other cloud sources.

And that gives us the best of both worlds, not only can we run the application stack in different cloud ecosystems, but we could also support different cloud providers. So long-term, your second part of the question, what does it give AvePoint? Is it gives us enough headroom? To continue helping organizations implement a governance model that addresses their data, unstructured data, no matter where it is. And it offers us a lot of variability in how we could also store their data, especially when you're working with organizations that have data sovereignty rules. Many companies especially now are asking we really want to investigate users' nationalities, we want to investigate where their data is being shared and we want to have the ability to keep data in country.

And so all of that is possible not only because of the way we architected the products, but also because of the options we offer. We think this is a huge differentiator in our competitive context and it also is giving us an opportunity to think of different monetization models. And then the last thing I'll mention is, what's interesting now is you see the move that Google did in January by introducing Gemini with Google Workspace at a lower price point than Microsoft 365 plus Copilot. What we're seeing is a shift where organizations are saying maybe I don't have to have all of my productivity systems running on Microsoft. I could have a mixture of Google. And we're seeing also other organizations that are considering other cloud services to be part of what makes up the digital workplace environment. So we're in a better position where we can be agnostic and we can offer capabilities that supports where the customer wants to be. And we think that also helps us differentiate from others in the market.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Yes, I think most investors I speak with kind of perceive you guys as falling in the same competitive bucket as a Rubrik Commvault on the backup side, obviously you do more than that with the governance and control and whatnot. So who are the primary competitors that you go up against head to head? Is it Rubrik Commvault? Is that the right read? Or who do you compete with? And you talked about some of the differentiators, but what's the type of organization that's going to gravitate towards an AvePoint versus one of those more traditional narrowly focused backup vendors?

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Yes, it's a great question. So the companies you mentioned are all formidable competitors in point areas of the problems we solve. If I take the example of Rubrik, Rubrik could be in a conversation where we're offering a data protection strategy with our platform and they're offering also a data protection strategy. And they may say we can cover certain legacy systems that are on-premise. We certainly are not extending our product capabilities to be more centric to on-premise sources. So that's one of the major differences. We're not a traditional enterprise backup player. We are a provider that is offering a governance framework that addresses cloud service providers and it also addresses unstructured data across different data stores.

And that difference matters to customers. An example could be a company says we want to apply a recovery policy or a schedule on the recovery of information in case we have an outage. But while we do that, we also want to make sure we're protecting the most critical data. And so you have to do two things. You have to recover the data, but you also have to identify and discover what's highly sensitive in that data set you're going to recover. And we were doing that by also looking at the identity of the user and the way that the container is classified.

So these additional perspectives Rubrik won't have. I think it's just simply because our philosophy on how to develop the governance framework is to follow the unstructured data in its use. Not necessarily say we're going to look at just the fundamental traditional enterprise backup workload. So we will compete with them in those use cases, but we will differentiate when the organization really has an appetite to look at the full lifecycle of data. There are other companies that could compete with us just to give you a variety on the Control suite where they might say, we're going to help you manage your entitlements and your entitlements could be all of the licensing that the users have.

Why companies want this is oftentimes there's a cost optimization effort, there's a category. Gartner had software asset management, which is where they had a lot of these players. Well, identity management is also part of governing the access that user has to information. And that's how we look at it. And by looking at it that way, we're able to offer in the Control suite a unique way to manage those entitlements and also remediate issues when those entitlements are incorrectly set up. Or in some cases organizations will leave a lot of contractor entitlements open and active in the environment and that's a backdoor to ransomware attacks.

So we take that approach. And when we combine both perspectives, it's easy for us to displace a company like BigID for instance, maybe some of you know that, as well as a Rubrik, because we're bringing a comprehensive view all out of one platform. We think this is a strength and we are doubling down on this. We think that now the desire for organizations to build agents with new architectures positions us quite well to extend this governance framework to also agentic architectures. And that's a natural sort of progression for us that continues to give us enough room to offer value back to our customers and partners.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Very helpful. You guys are coming off a very strong Q1, which was not the norm across software, at least not in my coverage. And I think if I look at the rest of software, not really the case across most of software. What drove that? Was that more execution driven in spite of the macro? Did you feel the macro? And specifically I think you guys have a unique viewpoint with a little bit over half your ARR being international. I think 11% of ARR being federal, not U.S. federal, but federal on a global basis, including other countries. So what do you see from the macro? The federal environment did just not hit you or are there tailwinds to your business? What allowed you to put up such a strong quarter when most companies are not doing that?

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Yes, I'll start maybe if you want to add. So the uncertainty for us in the macro context has been there for not just past few months, but over two years it started first with some sales cycles being elongated, but fortunately I think because the value proposition we have, as I mentioned before, is the core of the data quality and data challenges issues. I think our team did do a good job at executing and staying close to the customer and emphasizing the opportunity we have to solve the challenges they face today, which is, is my data ready for AI efficiency?

And AI efficiency is part of the macro, right. Cost reduction, consolidation of vendors, all mixed in with the opportunity to transform your business operations, so you can respond to your customers faster, so you could have your employees be more productive. These are all part of the macro uncertainty. And our teams have executed the discussion points well by emphasizing use our platform and understand where maybe you shouldn't be using copilots. Use our software and maybe identify where you could avoid a ransomware attack. Use our software to understand if you're actually ready to start doing some of these AI pilots at scale.

And so all of those themes work well when you're trying to navigate the macro environment. So we've been fortunate that by pivoting in this direction, by developing our go to marketplace to call attention to these areas, we are still in the room having conversations with clients, and that allows our teams an opportunity to close deals. And so, that's what I would say. I think we are being in business for over two decades. We've been here before where we've seen macro changes. And one thing as technologists, we've always said is build solutions and applications that are mission critical so that when cost cutting measures are in place, you're the last part of the portfolio that gets removed. And so, so far, we're pleased with that. We're sort of vigilant. We're not taking it for granted, but we believe that we can continue to succeed despite some of the macro effects that we see.

<<Jamie Arestia, Head of Investor Relations>>

Yes, and I guess the only thing I would add is, again, we definitely feel like it was a strong quarter. The top line accelerated with 26% ARR growth, or 28% when you adjust for FX, and revenues grew 25% or 27% on a constant currency basis. Mario obviously described in detail the demand trends that we're seeing and how those have been quite healthy. And we haven't really seen any sort of slowdown or deterioration in that demand. And I think one of the things that we often cite as a strength is the balance in our business. And Rudy, you mentioned our international exposure. But as you look at our, we have a slide in our presentation that breaks down our total ARR in number of different ways to sort of illustrate the balance and the diversity of our business. So on a regional standpoint, you're right. About 55% of our business comes from outside of North America. And we give the growth by region and all three regions, North America, EMEA and APAC, all were growing effectively in line with the reported ARR growth for the company.

So it's not even like we're seeing demand weakening or sort of outsized strength in any one region. It's been pretty steady. And as we talked about, we play across customer segments as well. About half of our ARR comes from large enterprises and then about 30% from mid-market and about 20% from SMB. Enterprise was actually our fastest growing segment in the first quarter. We gave some examples at our earnings call of large customers who either made big initial commitments to us or certainly expanded versus what they had had previously. But we're also seeing really strong growth across the other two customer segments as well, SMB and mid-market.

And then when we also look at the contributions from new customers versus existing by product suite, there really has been kind of strength across the board. So I think it's the demand trend that Mario talked about and our team's execution has been quite solid now for a number of quarters. So for us it's just about, I think, continuing to capitalize on that momentum. And then just the last thing you mentioned, federal. Yes. So about 11% of our total business today is federal government. But as you mentioned correctly, Rudy, that's global. When you just look at the U.S. federal exposure, it's about 6% or 7%. And then we frequently get asked about sort of the impact to our business from DOGE, because we are predominantly a headcount based business and sort of what a reduction in heads could mean for us.

When we look at the agencies that DOGE had specifically talked about, it only boils down to about 2% of our total ARR. And we also factored all of this into our initial guidance for the year that we gave back in February and obviously reflected that again when we gave updated guidance about a month ago.

So, I think we haven't really seen any slowdown from the macro. I think we're also just trying to be prudent with the guidance we gave. But I think we feel like we're in a pretty good position right now.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Just a quick follow-up on, on the growth across Enterprise mid-market SMB because Enterprise is growing fastest, but mid-market SMB are growing pretty close to your overall growth rate. Again, pretty uncommon, I think, if I think across my universe of coverage, I hear a lot of companies talk about SMB weakness and whatnot. So, any color to add there and just why you're still seeing such great success across all three arenas?

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Maybe I'll start. We mentioned at the start of the year – well, a few years back, we talked about the channel being a force multiplier for us. And this is because many channel players, as I mentioned earlier, managed service providers taking over IT operations would come and say, we love your application stack, designed for enterprise scale, but can you simplify it so we could deliver it as a service to our SMB customers? So we listened to that feedback and we shipped the elements platform earlier this year, which is designed specifically for that persona of MSP. And that's allowed these organizations and architecture that allows them to bring those – that policy mechanism on data, the readiness of data for AI at scale across architecture that allows them to do it across multiple tenants.

So you can have a consulting company of 20 or 30 consultants that is managing 50 clients using our application as the central pane of glass to manage user lifecycle, when users are coming in and onboarding, when we're changing the permissions, when we're cleaning up the data, when we're applying classification code. So, that's working quite well for us and we believe that the channel community that now has grown to over 5,000 channel partners in our own ecosystem are seeing the opportunity to create revenue streams for them.

We have one partner that has been part of a study where they were able to, for every dollar spent on AvePoint software, they're generating up to $5. And this is because they take our application and then they are able to come back to their end customer and say, if you're a legal firm and you don't have IT in-house, we will operate your environment, we'll make sure we address any remediation issues with risk on your data, et cetera, and so they're able to deliver that through our platform. So that's one aspect that's helping that growth scale on the SMB and the mid-market.

And then on the enterprise side, as Jamie mentioned, our reach in operating in so many different countries really situates as well to work with the likes of Ernst & Young, KPMG, Deloitte, these big organizations that have member firms and their biggest opportunity now is if I want to enhance AI, I need to ensure that we're not exposing risk to our business. And that exposure can come if a member firm is sharing data outside of that country. And the only way you could really prevent that is by using a central system that has some of the capabilities I mentioned before.

So, hopefully what you're getting is a flavor that we have a product portfolio that really is catering to the needs of the channel, that gives us a nice push into market, it also helps us keep our costs down and then on the enterprise side, continuing what we've always done, which is enterprise grade architecture that gives these multinationals an opportunity to see AvePoint as a viable partner.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

I want to talk about some of the targets from the investor day you had a few months back. Some were pretty ambitious. The $1 billion ARR target by 2029 implies a roughly 25% CAGR beyond this year through then, right, versus, I think, 28% ARR growth at constant currency in Q1. So not much deceleration at all. Really, really looking for stable mid-20s growth.

Again, I'll make comparisons. I have a company I covered, Investor Day in March. They didn't even feel it was prudent to give any growth target. You guys gave a 25% CAGR target effectively through 2029. What gives you the confidence to do that? And what are the drivers, bridging from $345 million ARR today to a $ billion ARR by 2029?

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Yeah, you want to start?

<<Jamie Arestia, Head of Investor Relations>>

Yeah, I mean, I think it really ties to the strategic priorities that we laid out at the Investor Day as well. And I think this is sort of the key takeaway is there is a number of growth vectors that we see and we feel confident in our ability to sort of deliver on that give us the confidence to put out that target, which we agree is, we think, pretty ambitious. But it’s something that we’ve been talking about, I think, internally for quite some time, and it felt sort of appropriate to put that out there publicly and hold ourselves accountable to it. And really, I think the team has been sort of galvanized and sort of excited by that capability.

When we think about those priorities, there is a few. There is obviously continuing to build out the platform and offer new products and capabilities, which has always been part of the plan. But we talked about some of the new introductions for Google based on that new partnership as just one example. Across the different customer segments, there is a lot of opportunity both at all three customer segment levels, enterprise, mid-market and SMB. The channel strategy, which Mario just went into, the continued scaling of that is going to be critical for us to keep extending that growth in a profitable way. New regions, I think, and continuing to broaden the global scope of the company as we mentioned, we’re in North America, EMEA, and APAC today, we certainly feel like we can go deeper where we already are established, but also expand to other areas that we haven’t gotten to yet, so like India or potentially South America, where there is, the demand challenges or the challenges that our customers are facing are really no different.

And then there is also going to be strategic M&A and investments that we can – that will really, I think, tie to all of these priorities will really tie together in a number of different ways. So I think we feel like they give us a lot of different abilities to deliver on that target and capitalize on the demand trends that we’re seeing.

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

I think the levers are there and obviously we want to make sure we are keenly focused. TJ has mentioned extensively how staying really close to the customer is something we’ve done from day one, it’s helped us navigate other economic downturns in the market. But we are – it is a frontier and many organizations that have the ability to use multiple levers, I think, are going to be the winners.

So, Jamie mentioned a list of levers. I would say that we’re also feeling better about some of the work we did with the learnings of the integration of a few acquisitions. So, while the organic growth is underpinning that 25% growth, there could be, as Jamie just mentioned, strategic M&As that become also bolt-ons that help us accelerate that. So we feel very good about the opportunities that are presented in front of us. I think now we have to hold ourselves accountable to execute. And what better way of doing that than to set a target, right?

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Yeah, does that – just to clarify, because both of you touched on the M&A. Is the $1 billion target inclusive of assumed M&A? And if so, can you quantify? Or is that an organic target and you're saying could be M&A that could help accelerate that path to it?

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

So, it is an organic target. I think we didn't sit there and say $1 billion and here's how we think M&A is going to help us get there. I think we recognize that we want to stay vigilant and look at good opportunities that advance our position in market. Sometimes time to value is sole key. And if you have a good technology that checks the box on all the criteria we look for in an M&A target, we could also make that leap and help us get there. But I think we first look at how are we performing today. You mentioned the 28% growth, we feel very good about the product line, we keep innovating, we continue to hopefully signal to those that have been watching and following the story, we typically launch a few products a year and we hold ourselves accountable in making sure those products perform in market. And so that same rhythm that we've had to get here to give us the current growth that we've had and the track record has all been underpinned by organic, not necessarily the few M&A pieces we've added. But as we think about larger numbers, we should remain open to the idea that something could be transformative enough for us to move and become a more strategic player to a company.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Got it. I want to jump to some of the gross and net retention targets. So, the gross retention, you've shown improvement, I think, it was 89% Q1 versus 87% Q1 last year. But obviously that's still quite a bit below the type of gross retention rates that we associate with SaaS companies. So I guess firstly, could you talk about what is the drag on it? And then secondly, you have this 90% plus target, which you're kind of right on the cusp of 90%.

So, help us think about what does 90% plus mean? Does it mean by 2029 it's low 90s? Is there opportunities for it to be above that? Try to maybe level set the expectations of 90% plus if you will.

<<Jamie Arestia, Head of Investor Relations>>

Yeah. So, I think the sort of 11% implied by the churn implied by the 89% reported gross retention rate is a good place to start. And actually, I think when you dissect that, it probably will shed some light on some of what you're talking about.

So, there's a couple of things worth calling out. One is that included in our calculation of that is our migration offering, which obviously, as a subscription, we do have customers who renew migration every single year. We have large customers who have been renewing it for over a decade because they continue to acquire companies, they just always have need to migrate data and so, they will renew that. But generally speaking, migration, you can think of as a sort of project base that does have kind of a fixed end date in theory. And so the renewal rates on that are lower. And so if you were to exclude the migration product from that calculation, the gross retention rate improves by about two points. So, the 89% becomes 91%.

And then as you think about the remaining nine points, about half of that is coming actually from down sell. So, I mentioned before how we are a headcount-based pricing model. So, if we had a customer who started with us with 100 employees, and then had a riff and laid off 10% of their workforce, they would renew for only 90 and obviously that would be reflected in our gross retention rate. Not every company necessarily calculates it that way. Some will calculate that when they're thinking about net retention rate. But we felt like that's the most appropriate way to sort of discuss and calculate the gross retention rate.

So, that really just leaves about kind of four points that is true kind of account level churn. And we're doing quite a bit to invest in the business, in our customer success functions, in technology to make sure that our customers are actually logging in using the platform and obviously selling those customers more because we know that customers who have multiple products from us will renew and we have very good stats to sort of support that.

So, we really only see customers at this point churn because they're going out of business or they are not using the product the way that they should be. And that's become an instance that's less and less common. So, that's a good way to think about what's actually happening on a blended basis across the company.

The other thing that we talked about at the Investor Day was at a segment level, the gross retention rates are different as well. And it's probably, as you would expect, the larger the customer, the higher the gross retention rate. So, our enterprise customers are actually already above the target level, as we described. And when you think about our larger customers, $100,000, $250,000, and above AAR customers, they are as well. I think our mid-market customers are effectively right at kind of the reported number, and SMB is, as you would expect, a little bit lower.

But, you know, I think a lot of the efforts that we're making to improve the gross retention rates, are company-wide. We're also thinking about, or we've been over the last couple of quarters in focusing on our long tail ARR, as we described them. Those are the customers that don't have a dedicated account rep and we've been pooling resources to make sure that we can efficiently reach those customers and make sure that we're solving the same problems that we were seeing with other customers is not necessarily using the platform. And so that has been a big improvement in the gross retention rates as well.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

On the NRR targets, the NRR target is 115%, I think, it was 111% Q1.

<<Jamie Arestia, Head of Investor Relations>>

Yeah.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

So I guess roughly the same improvement as gross, but maybe a bit more of an improvement. But the other way to look at it would be the percentage of your ARR growth coming from NRR. And today you're 28% ARR growth 11%, NRR targets 115% NRR, and again, the CAGRs kind of imply 25%. So it does imply, and correct me if I'm wrong, maybe a bit more of a focus on cross-selling upsell with the installed base as opposed to new logo. I'm not saying you're de-emphasizing new logo, but do I have that right? And if so, what is the opportunity with the installed base? If you look across your customers, how many are using you fully for all three suites or covering their entire productivity environment? What are the opportunities there?

<<Jamie Arestia, Head of Investor Relations>>

So, no, you're thinking about it right. I think we would say mostly the focus would be on cross sell. I think we license similar to how Microsoft does across the organization, so again, headcount based. So for us, net retention rate and improvements are going to be driven by customers purchasing additional products, not necessarily increasing the number of seats that they are purchasing for a product that they already have. And so that is where, I think, the focus has been and we still see a big opportunity. A lot of our customers are not taking, or getting, we would argue, the full value of the platform. Certainly we think that, them utilizing products from our control and resilient suites would be a big step in that direction. And there is a huge opportunity even with our installed base just to get them there. And that will be a big driver towards that $1 billion target as well.

But we also don't want to ignore the new logo acquisition. We've done, I think – with over 25,000 customers today, I think, we've done a good job of adding new logos and that's going to be critical for future growth. So, we don't want to ignore that. But it's also, we see a big opportunity with the installed base to help get us there. And so, that is where, I think, a lot of the go-to-market motion, I think, has been focused.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

How should we think about the linearity of margin improvement? I think the 2029 operating margin target is 27.5%. How should we think about annual improvement? And secondly, I don't believe you had a free cash flow margin target out there, but obviously, I believe free cash flow margins been trending several points higher than operating margins. And so should we take 27.5% operating margins to mean 30-ish% free cash flow margins or too early to say? Could have cash taxes, other impacts? How should we think about the free cash flow margin in relation to it?

<<Jamie Arestia, Head of Investor Relations>>

Yeah. So I think maybe just taking the second one first. So, yes, I think the free cash flow margins have been sort of historically a few points above the non-GAAP operating margins. We don't guide to it yet. I think it's something that we would like to be able to guide to in the future. But the trends there, I think, have been very, very encouraging. Last year, the free cash flow margin was 26%, which was more than double the prior year. Obviously, I think our focus starting in 2023 on profitable growth has put us in a good starting position in terms of generating cash. And so I think that has been something that's very encouraging.

So, we probably wouldn't guide yet to if that 27.5% up margin translates to a 30% free cash flow margin. But I think directionally that's a fair way to think about it.

And then with the linearity of the operating margins, so I think this year, our guidance is for just under 15% non-GAAP margins. We talked at the beginning of the year when we introduced that guidance that we weren't expecting to see that much margin expansion this year. This comes on the heels of effectively more than 1500 basis points of total operating margin improvements going back to 2022. So we obviously, I think, have shown a good improvement in margins over the last couple years.

But then I think we also talked about with that 25% to 30% target for 2029, that after this year, we would expect to see that sort of pace and progress towards that target resume in a more kind of normalized way. So, without being specifically prescriptive, I think, while there wouldn't be that much expansion this year, we would start to see that expansion resume next year.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Lastly, quickly, as we're coming up in time, capital allocation, I think, you have a little over $300 million in cash, the warrant converted, I saw the filing hit today, cash flow you're doing, I can see I could have $450 million to $500 million in cash by the end of the year. You're doing some buybacks, but what should we expect you to do with all that cash?

<<Jamie Arestia, Head of Investor Relations>>

Yeah, so I think the three sort of pillars that we've talked about would be first investing in the business that can be obviously across, sales and marketing efforts, R&D, and just making sure that we are properly investing. The second would be the strategic M&A and investments that we've talked about and to your point we have $350 million of cash, we're generating on top of that and yes, we filed a notice that we would be redeeming the remaining warrants of about – they're about $7.2 million warrants or so, which should translate into about another $80 million or so of proceeds coming in.

So in a very strong cash position, I think, to be able to entertain potentially larger acquisitions than the six tuck-ins we've done, the largest of which has been around $20 million or so.

And then third would be buybacks. We have a program that's out that is about $150 million. We've used a small portion of that so far. And so I think that will probably be measured in our approach to the buybacks and probably prioritize the other two. But needless to say, I think, we are in a very strong cash position that gives us a lot of flexibility going forward.

<<Rudy Kessinger, Analyst, D.A. Davidson>>

Okay. Well, Jamie, Mario, appreciate the time. Congrats on the success to date. And look forward to seeing what you guys do going forward here.

<<Mario Carvajal, Chief Strategy & Marketing Officer>>

Thanks Rudy.

<<Jamie Arestia, Head of Investor Relations>>

Thank you, Rudy. Thank you.