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<<Timothy Roepke, Analyst, Jefferies>>

Hi, everybody. Welcome Tim Roepke here from Jefferies Tech Software Investment Banking. We have the pleasure and honor to be with a Co-Founder. I'd like to call the OG of data governance and data security for the last 25 years across all the software, TJ Jiang, very pleasure to have him here; and CFO, Jim Caci as well. Thanks everybody for joining. I'll kick off TJ if that's okay. A few questions. Congratulations on a great quarter. This is getting to be a broken record with AvePoint, nine consecutive quarters of outperformance. Maybe just a few minutes on recapping the key takeaways for the group here and then anything from the macro perspective that maybe helped or hurt and how that impacted maybe your guidance for the year.

<<Tianyi Jiang, Chief Executive Officer>>

Yes, we're pleased with the double digit growth across enterprise segment which is we define as 5,000 above employee sized companies as well as mid-sized and SMB, SMB is 500 and below. And we also see double digit growth across all major regions that we operate in. So 43% of our recurring is in North America and then 30 plus percent is in EMEA and then 20 plus percent is APAC. So, all regions grew. APAC actually grew fastest. It's also a smaller number from a recurring revenue perspective. And Japan continue to be our fastest growing country. So we see – we're very encouraged by the continued strong demand in data governance, data control and as well as data resiliency. But our fastest growing segment – vertical if you will is the AI readiness, data governance and control.

<<Timothy Roepke, Analyst, Jefferies>>

Maybe with that just to focus on the APAC region a little bit because it's been such a power rally for the business for the last few years with SaaS growth well over 40%. What are some of the things maybe from a right to win perspective or beating some of the big incumbents that you've done such a good job at specifically recently, but also in the course of the last few years? What favorable dynamics or things that you're doing, the others are clearly not doing?

<<Tianyi Jiang, Chief Executive Officer>>

I think we did a decent job in truly localizing according to local demand. So for example Japan I mentioned, we've been there for 10 plus years. We're treated pretty much like a local vendor. We are in all prefectures and central government as well as a large commercial account. Japan is actually very much of an enterprise and government story, the mid to small businesses in Japan, because 90 plus percent our revenue today is the Microsoft's ecosystem. So Microsoft themselves are actually historically were not very successful in small to medium businesses in Japan. It's really just the OEM story with laptop deployment where you bundle in office.

But since GenAI, a lot of the medium to small businesses are now moving to cloud in droves and we start to see that small to medium business growth in Japan. So far the big growth over there is the commercial large enterprise and government. In Singapore specifically that's where we do most of our services. So today 12% of our revenue is in services, majority of that is in Singapore. We leverage that to do IP generation. So we do these eight digit, nine digit deals actually with Singapore government. These are TCV deals and we use that to generate IP and then sell in Japan, U.S., Australia, Europe, et cetera. So that's kind of our differentiation. And whereas Australia, New Zealand is very much like our EMEA approach. 100% channel, fast growth flywheel in small to medium segment and then continue to go after the public sector and commercial strong history that we always had.

<<Timothy Roepke, Analyst, Jefferies>>

Maybe staying on the geographic theme because one of the beauties in the business is the balance that you have globally across different regions and customer bases. North America obviously is your biggest at 44% of the total ARR. But maybe just a comment or two around strategy there, any issues with some of the things that have happened with the macro perspective that maybe have impacted you as clearly a true global business, but in the spirit of the geography of North America as kind of your biggest and kind of what's next for that segment?

<<Tianyi Jiang, Chief Executive Officer>>

Yes, North America historically has been a direct sales approach for us. Since we gone public, we really invest into channel. So finally North America, the whole SMB, at mid-market channel flywheel is going. So what that does is allow us to go after new markets faster at a far more efficient sales and marketing cost than we would be doing with direct. The direct organization really focus on large enterprise wins. So you saw in Q1 we have a record number of large ARR wins as well. So, for example, all big fours are our customers. And even in Q1 we have a large multimillion dollar ARR win with one of our up-sell win with our – our big four client.

But so North America, we're very pleased with our continued expansion of even new – Canada as a new territory. There's fast growth there. In specific, you're talking about some of the macro impact. We have a very strong public sector practice. It's a global public sector practice, but also U.S. public sector. It's a quarter of our business. But within the public sector there are three distinctive business divisions. One is Defense DoD and that continue to be very strong. One is state and local, that continue to be very strong as administration trying to push decision and budget to the state and local level. The impacted side is really the federal agencies. And we've seen, for example, IRS staff reduction because we license by a number of employees. We already saw that and forecast that back in February when we did the year end quarter earnings before Q1 earnings.

However, our team's effort re-engaging our customers and at the end of the day, whether you're cutting staff or not, the need for technology upgrades, the need to use AI to do more, every agency and every commercial entities are doing that. So even with significant staff cut, I'm happy to say that even at IRS, for example, we were able to maintain our total multimillion dollar contract value by having a completely different type of conversation with them to help them upgrade their systems and be able to give them a fixed outlook on the budget allocation despite the variability they may have in headcounts. So we're kind of changing the conversation there.

And also lastly, I would just say in public sector, it's interesting, a lot of the big SIs are hurting, like you can see from Booz Allen Hamilton – Booz Allen – and sorry, Booz Allen, because they have 80% of their business there. So that actually created a lot of opportunity for medium sized vendors like us to go after more business because there is an intentional move away from the very large defense contractors.

<<Timothy Roepke, Analyst, Jefferies>>

Yeah, makes sense. Looking like you're filling a vacuum. Jim, maybe a second on the beauty, another part of the beauty of the business is not just the balance around the geography and the revenue contribution, but in the growth and the margin profile in the company. A lot of people talk about Rule of 40s. Maybe you want to take a second on the spirit of how you've been able to profitably grow over the course of time and do it in a very consistent and disciplined, deliberate manner?

<<Jim Caci, Chief Financial Officer>>

Yeah, no, I think it's a really good point. I mean, I think if you look back to 2022, which seems like forever ago now, but it was only a couple years ago, we saw some uncertainty back then. In fact, more than uncertainty, we saw companies laying off a ton of people, put pressure on obviously customers renewing with us at the time. And we made a decision at that point, it was really late 2022, that we wanted to focus on profitable growth. And the idea that we should be growing we still think we're in a high demand market, but we wanted to do it in a profitable way.

And at that point we were not profitable. And so we really focused on really two things going into 2023. One was, as you said, achieving the Rule of 40 by 2025. And obviously the Rule of 40 encompasses those two metrics, right. It encompasses a growth metric and also a profitability metric. And then we also focused on GAAP profitability by the end of 2025. So it was those two key metrics that we said coming out of 2022, really into 2023 that we wanted to focus on.

Proud to say that in 2024 we achieved one of those. We achieved GAAP profitability. So, a year ahead of schedule and we achieved a 38 in terms of the Rule of 40 scale. So, we were right there. Now obviously going into Q1, we think we are on path and on target to achieve Rule of 40 by the end of this year. And our definition of the Rule of 40 is ARR growth and non-GAAP operating income as a percentage of revenue. A lot of other folks in the industry use let's say ARR growth or revenue growth and free cash flow. And if we use those metrics we would already be a Rule of 40 company.

So we feel good about the progress we've made. We feel really confident in achieving that objective by the end of 2025.

<<Timothy Roepke, Analyst, Jefferies>>

Yeah, we always laugh because you guys are more conservative about that definition than others are.

<<Jim Caci, Chief Financial Officer>>

True.

<<Timothy Roepke, Analyst, Jefferies>>

Well, we can't have a conversation with TJ about data security, and data resilience and data governance without talking about AI for a little bit in the spirit of everybody is talking about it. And he is one of the leaders of it for years now. But you think about your customer journey and kind of how customers are moving across app points platform they have today, any commentary around where you guys fit in, where you feel like you're differentiated, where you can actually really drive penetration inside that customer base.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. So, I think there was a recent study come from Gartner that look at industry sector adoption of AI. And one of the conclusion is that regulated industry actually tend to have a smoother AI deployment path because in general compared to non-regulated industry, their data are better curated, managed. So, there lies the crux of it.

So, AI is not magic, it's training of data. So, it doesn't matter what commercial model you use or open source model you use. At the end of the day for your AI deployment to know and speak intelligently about your business, about your industry, your vertical, it needs to be refinement trained with your own data. So, most enterprise data is actually quite messy. It's everywhere, it's across different data silos and we are very focused on unstructured data which is your emails, your contracts, your chats, your projects, et cetera. And those are 80% of all data out there. And of course, increasingly 10% of all data are generated by AI as well.

So enterprises need to adopt a better way to collate and classify attack, permission management and really lifecycle management of their corporate data set before they actually pump it over to refinement training. Otherwise you are going to have a higher hallucination rate, you are going to have higher misinformation rate and also you're going to have risk of AI recommending things you're not supposed to have access to.

So we have a number of clients that actually deploy our solution and including JPMorganChase, one of the largest financial institutions globally. When – before they turn on teams Copilot, they actually turn on our teams governance solution. Because what Copilot does especially for Office Copilot, it leverages Office Graph behind the scenes to look at permission.

It assumes all your enterprise data set permissions set properly. I tell you, nobody had their data set properly. So many, many, we all heard the stories, right? Many enterprises when they turn on Copilot, they get surprises of very recommending things that people are not supposed to have access to or outdated stuff that makes kind of get make to nervous but it was actually out of date like a retrenchment plan. So those are things are we help our customers remediate by having the proper control and governance of their data before they turn on AI.

<<Timothy Roepke, Analyst, Jefferies>>

One thing I've always been enamored at the company about and specifically how you guys have been able to lead through is Microsoft has kind of been a part of your DNA for a long time and you've constantly innovated alongside Microsoft and always been in a position to create new products and new innovation alongside whatever they might do in a really neat parallel way. Is there anything that you feel positive, negative, any sort of Microsoft-driven commentary knowing that that is still a primary part of your product set?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. We've been in this ecosystem for 20 plus years. Again, we don't compete against Microsoft, we compete within this multi-trillion dollar ecosystem. And all hyperscalers have their ecosystem. Ecosystem is important aspect of their competitive moat against each other. So we are an important part of the Microsoft cloud ecosystem and because of that, we actually sit on their product advisory councils as partners providing feedback.

We're oftentimes the launch partner anytime they have a new releases, whether it's Back Express, most recently at the Dev Conference at BUILD. Satya had a slide of all third-party Agentic AI offerings and we are the top right. So it's nice. So we're often the launch partner. So we basically see where Microsoft's roadmap is and then we actually be able to kind of forecast where the monetization opportunity come.

So again hyperscalers will always incrementally improve their base offering but every time they expand the overall offering, there's a lot more opportunity for monetization for ecosystem players. So having said that, we are also now expanded into the Google ecosystem in an aggressive way. So we announced this investments and new product sets in marketplaces because now Google as you all know are very, very serious about enterprise segment.

So the Wiz acquisition, it's a very strong signal. So we think there's massive opportunity there to replicate our success in the Microsoft ecosystem when it comes to enterprise grade data management governance solution and bring that to their Google ecosystem. So multi-cloud is here to stay. It's really artifact of our customers. We're following our customer demand because they would say hey AvePoint, you have a confidence platform to manage and curate my data across Office cloud, but I also have Salesforce, I also have stuff application and data set on AWS and then part of my subsidiaries are also using Google. This happens. So can you help us?

So those are massive opportunities. So for us, we see that investment to multi-cloud is another way to not only get new – net new market acquisitions but also as a way to expand our existing footprint thereby increasing NRR.

<<Timothy Roepke, Analyst, Jefferies>>

Yes. It seems like a natural way that you guys have been able to prove out a scripting way of creating monetization through an ecosystem and then slowly but surely in a disciplined but smart way, work your way through different ecosystems, very impressive. Couple more questions before I turn over.

But competition wise, do you feel anybody specifically that is maybe out there that's undermining you or do you feel very confident kind of where you're at in your position, whether it's geography based or channel direct any of the customers segment specifically. How do you feel about competition?

<<Tianyi Jiang, Chief Executive Officer>>

Competition has always been fierce in B2B software. That dynamic has not changed. But the good thing is we don't have a singular competitor. We have point competitors in different spaces, across different geos and across different segments. So that actually makes it easier for us to deal with. So we sell the platform, the product is our new go-to-market messaging is beyond secure and the platform is the product.

So we see that every time we sell two or more products into accounts we're far more stickier and NRR goes much higher. So the mantra is we don't just – we may land with a singular product. We have different tip of the spear, if you will, we can get in from a data analytics migration perspective. We can get in from governance control perspective. We can also get in from backup and ransomware detection recovery perspective. But once we do, the moment we start upselling additional product, that allow us to make the platform much more stickier. So that's always been our competitive advantage.

<<Timothy Roepke, Analyst, Jefferies>>

That makes sense. Jim, maybe last question. In terms of capital allocation through over $300 million of cash in the balance sheet today, cash flow positive story, clearly no requirement for raising money, but the spirit of M&A thinking about distribution, however you think about it, maybe a comment or two on that would be helpful.

<<Jim Caci, Chief Financial Officer>>

Yeah. We refer to it as kind of capital allocation and you're right, we're sitting on about $350 million of cash, right? Good free cash flow generation. So we expect that number to only increase. Yeah, we think about it really three vectors, right? One is, first and foremost making sure that our teams are adequately staffed. They have the right resources, the right technologies to continue to grow, execute and deliver. Obviously, they've been delivering over the past nine quarters very efficiently and effectively. We want to see that continue to happen. So we want to make sure they have the right resources to do that. So that's first and foremost.

Second, as you alluded to, we've done six small tuck-in acquisitions over the past couple years. M&A is definitely part of our roadmap in terms of we do think there's an opportunity to continue to invest organically. But also there are great companies being created every day. There's really smart people out there coming up with great technology that we should be taking advantage of and we have a route to get it to market and helping customers. So we're continuously looking at opportunities to do that. And we feel like M&A is definitely a use of cash moving forward. Like I said, we've done small tuck-in acquisitions. I do think we now have the muscle to do larger acquisitions. So I wouldn't be surprised if we do bigger deals moving forward.

And then the third kind of pillar in our capital allocation strategy is our share repurchase program. You guys may have seen we've done share repurchases in the past. We do have a program in place right now that allows us to purchase up to $150 million worth of stock over the next three years. And so that's an opportunity for us to look at our own stock as an investment and take advantage of that where we think it's appropriate, but it's probably the third in those three pillars as we look at our capital allocation.

<<Tianyi Jiang, Chief Executive Officer>>

I would add additional is that our guiding principle when it comes to acquisition is never going to be revenue acquisition. So yes, we've given targets to get to $1 billion ARR by 2029. That means 25% top line CAGR and we'll do this profitably. But that's mostly with our own organic growth initiatives. We have multiple high growth initiatives internally. If all of them hit, we'll do much better. So – but our acquisition is really focused around IP, very interesting IP expansion and whenever we do acquisition we very focused on organic code integration. So refactor the code and integrate into our confidence platform, so then we can deliver to our existing customers and existing channels in a seamless way.

So what we've seen acquisition in tech space often fall apart, it's often this tech debt, lack of integration. Then over time that tech debt would just weigh down a company's velocity. Because customers are very smart, they don't want a separate experience, they don't want a separate support and use this experience with a completely different product. So for us, it's super important to have that organic native integration when we do an acquisition. So that – because we're a technology first approach, we're all tech background. So that's – we want to make it much more of a seamless upgrade experience – expansion experience for our customers.

<<Timothy Roepke, Analyst, Jefferies>>

That makes sense. It's good optionality for the financials that you do. Well, I'll turn over. Is there any questions from the audience please?

Q&A

<Q>: Could you sort of two part question, one is the governance sort of AI readiness sort of bucket, roughly kind of what percent of the ARR does that represent? And then the second question is competitively, so like Microsoft talk a lot about Purview, which I assume you compete directly against. Can you just describe what – like why you win, what you do sort of maybe better than their own technology and others kind of specific to that market.

<A – Tianyi Jiang>: So – yeah, so the AI readiness, the control and governance piece is over 20% of our ARR. It is our fastest growing suite. On the compete side, we actually, again, we say we don't compete against Microsoft, we complement what they offer. So Purview is part of the E5 license. Seven years since E5 deployed, only less than 20%. The seats are covered by E5. Oftentimes, you'll find customers have mixed license types, not everybody needs E5. There's E3, E1, F1. So how do you actually coalesce all that different license types with a consistent data management strategy and that's where we come in. We will leverage Purview labels when it makes sense when customer have Purview, but oftentimes, it's rare for a customer to have every single employee covered by that. So it's very much of a complement and surround strategy rather than a head to head compute strategy.

<<Timothy Roepke, Analyst, Jefferies>>

Any others? Great. Well, TJ, Jim, thanks again for joining supporting Jefferies. Appreciate it.

<<Tianyi Jiang, Chief Executive Officer>>

Thank you.

<<Jim Caci, Chief Financial Officer>>

Thanks, Tim.