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<<Eric Heath, Analyst, KeyBanc Capital Markets>>

TJ, Jamie, thanks for being here, pleasure to have you on Day 1 of KeyBanc's conference in Park City. Hopefully the weather's great.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Views are great, all that.

<<Tianyi Jiang, Chief Executive Officer>>

Thank you, Eric.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

So I want to dive into it and then just kind of, I don't know, think of a great place to start is on 2Q earnings from last week. I want to get your perspective on how things transpired from your perspective, where you saw strength in the quarter, where you're pleased with, where you're seeing progress on the fronts with resiliency and control and AgentPulse and all that kind of stuff, and we'll take it from there.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. I mean, we had our double-digit net new AR growth, 13th quarter in a row, I think 14th quarter outperformance, consecutive quarter. And we're very pleased with net new logo acquisitions and also the top-tier cohorts, whether it's a million, half million, quarter, 100,000k ARR cohorts have all markedly increased. I think 250,000 above cohorts are 30 plus percent increase.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Right.

<<Tianyi Jiang, Chief Executive Officer>>

We also see growth, 20 plus percent growth in all major geos that we operate in, North America, EMEA, and APAC. EMEA's highest growth because our pretty much 100% channel model over

there. North America, we have a very strong direct sales organization in the enterprise segment where we do have high NRR retention as well for the customer. What's also pleasing to see is our momentum around governance, AI governance. Specifically, so our SaaS platform has the modernization, has the resilience, has the control. So, modernization is data analytics, data integration, data migration. Resiliency is backup, storage optimization, archiving, and also ransomware detection recovery. And then governance is lifecycle management, identity management, access control, record management.

So, of course, that's our core. And of course, that is now the foundation for any AI deployment projects because to have a good AI outcome, you need to have foundational data curation and management. So, historically, our control is 26% of our total recurring. But now, this year, going into this year, because of the introduction of products, AI products like AgentPulse, we see the pipeline is now 40% in control. And the demand for us is so high that while AgentPulse was only GAed in Q1, we released the independent Lite version SKU in July because we do see the deal sizing getting larger and also just the number of agents our customers are actively managing with this product. On average, it's 5,000 agents and the number of those agents are doubling every three month. So, it's an incredible growth rate. So, that's something that we're pleased to see.

And lastly, I would just say we continue to make very strong growth, meaningful growth in the SMB sector. So, when we went public, we barely do any SMB because we started in enterprise. Now, it's 20% of our total recurring. It's the fastest-growing segment for us leveraging MSPs as intermediary to be mission-critical for the managed service providers to go after. So, yeah. So, we're pleased to see growth across all segments, across all geos and really lean into this AvePoint being an AI trust layer provider between – sitting between the data and the model and help companies address the top two concerns – these – every company have today, which is AI risk and AI cost.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Right. So a lot of things to dig into on that aspect.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

So, look, we came into the year and kind of set the stage for acceleration on the top line, and you are seeing that bear fruit. So like at a high level – the highest levels like what is driving that momentum acceleration of the business, and what are you executing against that is making that play out as we have seen?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. So we are confident enough with the acceleration, that is why we give the long-term target of...

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

...not even long-term, right. By 2029, we will get to \$1 billion ARR. Ideally, we want to get there faster, so you work that out, it is at least 25% annualized CAGR on the top line. And as Q2 demonstrated, we are accelerating. So most company, once they get to a \$0.5 billion in recurring, they start to decelerate, we are accelerating, and we are doing this profitably.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

So there is multiple – really multiple areas of growth we see that is what give us confidence. It is not just a singular thing. Obviously, there is this whole AI risk, AI cost angle that we talk about. And we see that across geos. It is not just the North America conversation, it is a Japan conversation, it is a EMEA conversation, it is ANZ, Singapore. But this whole MSPs, SMB, the penetration, that is the long tail. For Microsoft, SMB is 40% of their business, for us, it is only 20% today and of course, 90% of our business is still within the Microsoft ecosystem. And we are growing because customers are multi-cloud, as we continue to work to improve our GR, NR. We are expanding to other multi-cloud ecosystems like Google, Salesforce, now Okta, Jira and those type of ecosystems because we want to continue to grow the NRR and GR for our customers.

So there's that improvement there, that drives. Of course, there's also this security angle, data security posture management.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

So because of that, we're now also getting into device management, identity management, because to do true shadow AI discovery, not only in cloud, which we do today, we want to get to device level because that's where OpenCloud runs. So these are the basically weighed open source stuff that you can run on little hardware devices, and that's actually quite prevalent out there.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

So...

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Is that first-party or is that third-party in terms of how you surface that device telemetry?

<<Tianyi Jiang, Chief Executive Officer>>

So we're leveraging – so we're doing first-party today.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

But there's obviously, we also have a parallel M&A stream that we're looking at potential third-party.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

Kind of acceleration with that.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Right. And then your perspective at an overall, just like a macro perspective on the security market and what have you, what's going on? Because it's incredibly, incredibly dynamic.

<<Tianyi Jiang, Chief Executive Officer>>

Yes.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

In terms of the number of attacks and nefarious AI activity we've seen and all that kind of stuff, and the capability of the model. So I've been trying to ascertain what's going on, what are the customers doing? Are they spending more? Are they reacting? Are they prioritizing certain areas? It seems like so much is happening, but from your perspective, what's going on at the

ground level? What people are doing? Are the budgets opening up? Are people making decisions faster?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. So in the conversation we have, because we are really helping customers address this whole AI risk and AI costs conversation. And of course, security comes with that part of AI risk. It's not so much a budget concern, it's really this hair on fire problem of, there's a lot more risk, right? There's a lot more anxiousness. It doesn't help all the frontier models are, almost from a marketing perspective, letting Mythos level.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

Agents go out there and do some damage, right? It's actually really marketing. They really have control. They could easily air gap the whole thing for research purposes, but they don't, right. Just yesterday, Meta also announced that, we can also hack other people, too. But that's border on level of irresponsibility, right. So I think companies, they are anxious. Like we, for example, we're even trying out the latest Microsoft claimed MDASH, to be Mythos level, but these things are very expensive to run. Super expensive to run.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

I was recently at the Microsoft CEO Summit where the chairman of BlackRock was on stage that – at BlackRock, we don't have enough cash to run Mythos against all of our infrastructure. So there's that problem, right. So on one hand, everybody needs to do vulnerability discovery, but there's also a lot of false positives, and it's also super expensive. On the other hand, you hear in the news every day, there's...

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

These type of agentic attacks at machine speed. So overall, there's no silver bullet. You have to have multilayered approach. We consider ourselves as the inner layer, to look at access control, to look at data security posture management. We're very much focused on structured data today. We just have to kind of help our customers navigate that.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah. So obviously, the other big thing is just, how do we secure AI? How do we adopt it securely? How do we trust that it's going to behave the way we intend it to trust, and it's going to act on the data that it's supposed to act on?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

That's where AvePoint comes in with the AI trust layer. So can you just expand on like what that means in practice, why your approach at doing this is differentiated and what else is in the market?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. So we've been doing data governance, because we came from an enterprise content management space. So our whole philosophy is that this is a continuous data management story from birth, right, from data ingestion to cloud. So that's data classification, data integration, migration to then once you are in cloud from resilience perspective to make sure that your data is properly backed up and recoverable, and then to the whole access control life cycle management, delegate administration. So one of the things we think we did very well in the early days is to help very large enterprise, so these are the biggest consulting company in the world, like the Big Four audit firms, to be able to – because IT does not really know what businesses use these data for, right?

So this delegated kind of accountability model, the governance framework. Now that then apply in the age of AI, allow IT a way to pass accountability to the business side. So you are vibe coding an agent, you need to give me context on that agent. And what dataset that agent have access to, what kind of permission, permutations, and evolution changes it needs to apply. So this is why – last week, we also released Kinetic Classification, which means we can adjust classification, tagging, and access control machine speed as policy change, as role change, et cetera.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Right.

<<Tianyi Jiang, Chief Executive Officer>>

That is important, right, to be able to kind of keep up with the living and breathing things that is happening in the enterprise. So that's – because we solve at the data layer, it makes it easier to solve at the AI layer. So you look at a product like Agent 365 from Microsoft, it is really focused

on the agent layer. They do not really go down to the foundational data layer. We start at the data layer, and we go up to the agent layer. So what we feel is that we have the right win because we have a more of a holistic approach. Because ultimately, AI and the data are actually two sides of the same coin. So that's how we think about it.

At the same time, we also have a pretty robust consulting side. So we have 12% of our revenue is services. Increasingly, that's becoming AI foundry type of services. So we're doing AI monetization work for us. That generates IP for us that will feed the software side as well. So what we found is that companies can change out the frontier models every couple of months, depends on the latest and greatest, right? But the commonality behind all of that is they need to have – every single company need to have their data architecture robust.

They need to have kind of their active governance and enforcement and data hygiene done properly. And it's a constant thing, because it's not like you drop AI and you forget it, right. It's a constant refinement because AI can drift very quickly. We know that 60% of all data today are generated by AI, especially in the unstructured space. That is where GenAI really thrives. But if you are constantly using generated data by AI, very quickly, you go into an echo chamber, then it detaches from reality.

So this is why this active governance, active refinement, and also delegate accountability model matters. So the way we win is because we established ourself in that space with some of the largest enterprise and government agencies in the world, and now, of course, we make it available to small to medium businesses as well.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah. I mean, what you said in the middle of that resonated because at our dinner last night, security dinner, there was multiple people that kind of said, hey, it really is a data problem in the end. You secure the data, and that's the foundation. You got to get that right as the core foundational layer to get right before you can expand beyond that. That's the best way, mindset to have when you're rolling out AI, secure the data.

<<Tianyi Jiang, Chief Executive Officer>>

So think of the different ways. Before GenAI, we were operating on the premise of that we help enterprises manage their data so their employees can responsibly share internally, externally, and collaborate at speed without worrying about compliance and governance violations. In the age of GenAI, these are just basically same thing, same risks, except it's just much faster.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

Right? Agents don't sleep. They don't take weekends off, and they're just operating at machine speed. But it's really the same risk factors we addressed before.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Just amplified.

<<Tianyi Jiang, Chief Executive Officer>>

It just amplified.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah. Yeah. So let's talk about AgentPulse a little bit more because that's really interesting. And obviously, I don't know, the world is awash with like marketing noise of companies that are addressing the AI problem and securing AI, and everybody wants to have their own angle of securing agents. So like help us understand, we kind of touched upon it a little bit, but just like peel back the onion a little bit further on like AgentPulse, how you're positioning it, who the competitive set is as you roll this out? Just, again, coming back to the angle of why you need to do this with AvePoint as opposed to other vendors that also kind of go after the same market opportunity?

<<Tianyi Jiang, Chief Executive Officer>>

So, we actually give – at the latest earnings, we gave two examples, right? So, one enterprise, we say, hey, they chose our solution, our platform over a major security vendor. In that case, actually CrowdStrike. In the second example, we say over Agent 365, right? So again, we come at it from a different angle. So also at the same time, don't forget the customers are very cost-conscious. They also need to say, hey, everyone's trying to solve this problem, everyone's incrementally getting better, but no one has the full silver bullet because this is a very dynamic thing. But at the same time, we cannot all go to E7 license. We cannot all, for the non-E7 users, double our Office 365 subscription with \$15 per user per month Agent 365 subscription. At the same time, we also still have to handle the data side.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

So, that's how we provide value. So, fundamentally, we as an ecosystem player in this space for 20 plus years, our value has always been – it's two things I always say, right? People always ask, why doesn't Google and Microsoft just kill you guys? So, I think the hyperscalers, their interests are different than our interest. Their interest is to get everyone to use only their stack and only use the most expensive version of their software. So, if you look at E5 license, it's been 10 years

since E5 license rolled out, penetration rate is just 20%, a little over 19%. And then Copilot's been out for three years, penetration rate is 5%.

And E7, right, I reckon it'll be in the teens for many years. So that's the opportunity, right? So, customers are pretty smart. They also want to make sure that whatever they invest in technology give them the best return on investment. And also increasingly customers are multi-cloud. They don't just rely only one vendors.

So, for example, in Q1 our earning release, we actually talk about the conflict in Middle East when it happened, when regional data centers, AWS data center got taken offline, our demand for our resilience suite like just skyrocketed off the charts. And that still happened today because people realize they cannot just have all their eggs in one basket. They cannot just have all their infrastructure with one hyperscaler. So, when third-party like us provide that opportunity to basically backup and recover in a different infrastructure than where they were. And that's what we do. We do that at scale. So, not only do we, again, provide best – help them kind of maximize their investments so they don't have to buy the most expensive of everything, but also help them navigate a multi-cloud world, multi-geo, multi-sovereign world. So, I think that's where we will always find opportunity for monetization.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yes. And what's the initial monetization of AgentPulse? What's the uplift or how big of an opportunity help us?

<<Tianyi Jiang, Chief Executive Officer>>

It's been great. So not only now the total pipeline is 40%, but every deal that has the AgentPulse baked in compared to a normal control deal is double, if not triple, the deal size. So this is why we actually made a light version of AgentPulse as a standalone SKU so that customer can just go discover the shadow AI that they have realize they have risk.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yes.

<<Tianyi Jiang, Chief Executive Officer>>

And then they can buy more from us to kind of actually control that risk and potentially recover from that risk. So, that's how the rest of our platform comes to play. So, that's why we think that in the space of platform preference, in the space of vendor consolidation and maximum ROI, we have the right to win.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

And the new SKU will remove even more friction that might be there just on price, just those price-conscious customers, and you're still pricing this competitively what's in market.

<<Tianyi Jiang, Chief Executive Officer>>

Very competitively compared to what's in the market. Yes. And we're doing it by seat-based. So that's another thing I think.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Right.

<<Tianyi Jiang, Chief Executive Officer>>

In the world, yes – in the world of consumption-based modeling, it's becoming very difficult for customers to consume. I sit on boards of some larger companies. They were budgeting their AI consumption last year's token maxing, right? This year. So is this one company that have 2,000 developers, they were budgeting \$6 million and first half of the month, they spent \$12 million already. So, as a CFO, how do you handle that, right? So, for us, we're actually still licensing by subscription total employee count just like how we do our other software. So, I think right now, there's a real opportunity for us because we were able to control the cost side of the equation pretty well. So, there's a real opportunity for us to go grab market share.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Right. And then the non-Microsoft opportunity, can you just talk about where you are from a product perspective in terms of being able to support these workloads from a go-to-market perspective to be able to go tackle this opportunity? How are you thinking about the priorities, whether it's SMB, enterprise, of going about expanding, diversifying the workloads that you cover?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. So we're very strong in Office Cloud productivity, what Microsoft call that productivity. And then we start also getting to – we have now very fast-growing IaaS and PaaS, so that's compute. So because a lot of the AI workloads and application workloads are in the compute cloud. So that's AWS, Azure, GCP. But the equivalent productivity in the Google space is Google Workspace. So we have now near parity of functionalities when it comes to resiliency, when it comes to control for Google as well. And also we have resiliency for Salesforce and a number of other Atlassian and others.

So what we – our strategy for multi-cloud is really just follow our customers and their multi-clouds that we extend. So, it's one of continuous work to improve the GR and R, expand that way. So, I always get this question like, “Why aren't you or multi-cloud bigger than 10% yet?” So, because for us, we don't think of our – even the Microsoft side of the revenue side is slowing down. It's still accelerating and the TAM is much bigger. So, Microsoft, just in Office Cloud alone, has about 450 million users. So, there's still massive growth there. And then we're doing the multi-cloud in tangent because customers are multi-cloud, right?

So – but now, increasingly, we see the really good opportunity with Google. So, we're investing more into Google go-to-market to target that as a separate ecosystem. Oftentimes, it's not a tech that costs the most time and money is the go-to-market.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah. If there's any questions, let me know. But on margins, I wanted to highlight this opportunity because you are seeing accelerating growth. Margins, a little bit of a pause relative to last year, and you decided to spend a little bit incrementally in the second half of the year. So, just talk about where you are from framing that opportunity of growth versus margins, what the incremental opportunity is that you're trying to invest against and go get?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. First of all, our free cash flow generation last 12 months, \$100 million.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

And we're GAAP profitable. And so, we're very much disciplined, focused on this profitable growth mantra. Our GAAP operating margin continues to expand because we're very disciplined on SBC. So – and this year, we bought back a lot more shares than previous years. At this rate, we'll probably buy back almost like \$180 million this year, which is really good for shareholder value creation.

Now, in terms of the – why did we do the step-up function investment mid-year at 1%, it's because we see the market opportunity we want to lean into it. And a lot of – more than half of that investment is go-to-market. So go-to-market is hiring more partner development managers, launching more brand marketing campaigns. And those things take time to ramp. So rather than wait till the end of the fiscal, new budget, we want to do that now, so then we can ride and build up the acceleration well into next year and beyond.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

So that's our goal. And less than half of that is technology upgrades. And also some increased costs, for example, in AI-accelerated IDE tools, right? Because there is some consumption-based modeling there. But that's – so that's part of the tech investment that we make. So overall, the investment is to accelerate growth. We are not changing our medium to long-term operating margin profitability guidance.

We think we can still well maintain that, as you saw from our latest, our software margins remaining in the mid-80s. So that doesn't change. Our gross margin's lower because we have that service component where we do the whole AI; AI foundry work. We think that's very important, especially now. It's not a surprise Anthropic, OpenAI all launch consulting arms because people realize that you still need very good engineers to land AI.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah. Maybe in the last 20 seconds here, but curious your perspective of where you are from an adoption maturity perspective using AI internally?

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. So I think on the tech side, it's pretty decent. In fact, we are actually...

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

R&D side, kind of?

<<Tianyi Jiang, Chief Executive Officer>>

R&D side.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

In fact, we are actually even using, as part of our M&A stream, there is now, my first – I directly lead that for now, my first question often is, "Do we buy this asset, or can we use AI to build this asset faster?" So there is that happening. So that's mature. On the rest of the organization, of course, we have obviously a lot of AI agents that we deploy to improve sales efficiency, to improve customer support efficiency on the finance side, but there is more to be done. As everyone knows, it is always a change management.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Awesome. Jamie, anything to add in, or TJ, anything last parting comments?

<<Jamie Arestia, Investor Relations>>

Just really quickly, I think the, like the results and the guidance, I think are very strong and reflect on the ARR, a raise, and the same thing with revenue, where the Q2 beat has been passed through. Just the FX offset in terms of those headwinds because we are so international is sort of offsetting those raises, but we want to make sure that the operational performance isn't being clouded in just how strong it is. So that's the only thing that, we've been discussing since earnings is just the FX headwinds that we didn't cover today. So wanted to mention that.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah. Between the quarter, the guide, and the, I don't know, the messaging on investing to go get more opportunities seems really encouraging from a demand perspective, execution, et cetera. So appreciate the...

<<Tianyi Jiang, Chief Executive Officer>>

Yeah.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

...commentary there.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah, you will see more product announcements all the way till the rest of the year as we really lean into this AI trust layer messaging.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Yeah.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

Awesome. All right, well, thank you...

<<Tianyi Jiang, Chief Executive Officer>>

Thank you.

<<Eric Heath, Analyst, KeyBanc Capital Markets>>

...TJ, thanks. Jamie, appreciate it.

<<Tianyi Jiang, Chief Executive Officer>>

Yeah. Thank you.