Q2 2023 Earnings Call

Company Participants

- Jamie Arestia, Vice President, Investor Relations
- Jim Caci, Chief Financial Officer
- Tianyi Jiang, Chief Executive Officer

Other Participants

- Brett Knoblauch
- Chirag Ved
- Jason Ader
- Max Gamperl
- Nehal Chokshi

Presentation

Operator

Good afternoon, and welcome to the AvePoint Second Quarter 2023 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note, this event is being recorded.

Now I would like to turn the conference over to Jamie Arestia, Vice President, Investor Relations. Please go ahead.

Jamie Arestia {BIO 19836110 <GO>}

Thank you, operator. Good afternoon, and welcome to AvePoint's second quarter 2023 earnings call. With me on the call this afternoon is Dr.TJ Jiang, Chief Executive Officer; and Jim Caci, Chief Financial Officer.

After preliminary remarks, we will open the call for a question-and-answer session. Please note that this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from management s current expectations. We encourage you to review the safe harbor statements contained in our press release for a more complete description. All material in the webcast is the sole property and copyright of AvePoint with all rights reserved.

Please note, this presentation describes certain non-GAAP measures, including non-GAAP operating income and non-GAAP operating margin, which are not measured presented in accordance with U.S. GAAP. The non-GAAP measures are presented in this presentation as we believe they provide investors with the means of evaluating and understanding how management evaluates the company's operating performance. These non-GAAP measures should not be considered in isolation from, as substitutes for or superior to financial measures prepared in accordance with U.S. GAAP. A reconciliation of these measures to the most directly comparable GAAP financial measures is available in our second quarter 2023 earnings press release, as well as our updated investor presentation, both of which are available in the Investor Relations section of our website.

With that, let me turn the call over to TJ.

Tianyi Jiang {BIO 20151191 <GO>}

Thanks, Jamie. And thank you to everyone joining us on the call today. Highlighted by 30% AR growth, as well as total revenue and margin performance that once again exceeded our guidance, our second quarter results demonstrate the demand for our platform and the strength of our business model. Amidst the ongoing uncertainty in the macro environment, we continue to see customers depend on AvePoint's Confidence Platform to rapidly reduce costs, improve productivity, and make more informed business decisions as they advance their digital workplaces.

This demand, coupled with our sustained focus on profitable growth, drove another quarter that surpassed expectations on both the top and bottom line. Jim will dive into our financial results shortly, but first, I want to discuss two main topics: First, generative AI, and how we're positioning AvePoint for continued long-term success amidst the massive and dynamic changes that are happening in our platform environment; and second, the journey of AvePoint's customers, where our abilities to partner with them in every stage of their digital workplace transformation and cloud optimization journey remains a key competitive advantage for AvePoint. And led to another strong set of results this quarter.

Let's start with generative AI. We're excited about the potential of AI to disrupt industries and drive innovation. And as the earliest Microsoft SaaS cloud partner, and today the most mature B2B SaaS data management vendor, AvePoint's well-positioned to lead the way. In conversations I've had with our customers, our partners, and my peers, two things are abundantly clear: first, the bedrock for impactful AI solutions is data. Especially the powerful combination of proprietary data gathered from unique sources. On top of foundational AI models, which together will pave the way for unprecedented commercial success and customer satisfaction; and second, the only way to create a successful AI strategy to unlock business value is by applying an advanced information management strategy to the organization's proprietary data. This is where the AvePoint Confidence Platform comes in.

Avepoint has been working with customers for over two decades to modernize, control, and apply resilience to their data management practices. And over the last several years, we have incorporated machine learning and AI into our platform establishing the foundation for powerful insights, impactful recommendations, and comprehensive protection of our customers' digital workplace investments. Our innovation has already helped customers achieve business value by swiftly detecting and guarding against ransomware attacks, ensuring policy enforcement for how information is accessed and improving the life cycle of information through strong data governance.

Today, we manage more than 250 petabytes of data for our customers on a daily basis, which gives us unparalleled insight into how data is used in different contexts. Now we have an opportunity to go further in helping organizations extract value from their data. A great example of this is a private preview program we launched for our cloud record solution last quarter with four Australian [ph] government organizations, offering AI power capabilities that transform how organizations classify content efficiently, accurately, and at scale.

One of the participants completed a migration of their datasets from a legacy platform to the cloud, but was unable to correctly classify much of the content due to resource constraints. Our automated intelligence model, which can rapidly identify and classify various types of content, apply the appropriate business rules and life cycle to ensure business and legislative compliance. While completing this manually would have taken the organization years, our model did so in weeks, yielding a factor of nearly 20x productivity improvement. This provided the government agency with better information at lower cost, which in turn will be used for more rapid and accurate reporting and decision-making.

Our track record of innovation combined with our unique features and platform capabilities establishes our ability to continue releasing more AI-driven solutions that democratize insights, recommendations and protection for our customers and our build upon robust data management strategy. You'll hear more from us in the months to come about our continued AI innovation, especially at our upcoming Industry Shift Happens conference in October.

Turning now to the customer journey. This innovation aligns with how we see our customers continuing to evolve their digital workplaces and how our platform supports every stage of their transformation. This often means initially solving one problem and then leveraging our other platform solutions to address their additional needs. Before I share examples of this in action during the second quarter, let me remind you of the components of our platform which supports every stage of organization's digital workplace transformation, including cloud consumption optimization use cases to help organizations maximize their ROI on cloud.

The AvePoint Confidence Platform consists of the control suite, which delivers a sustainable, ready-made framework for automated governance and policy enforcement, protecting business-critical information across collaborative workspaces. The resilience suite, which enables organizations to efficiently comply with data protection regulations and preserve critical records, ensuring business continuity and compliance. And the modernization suite. which transforms legacy data and business processes for use by modern SaaS platforms, driving digital workplace transformation and enhancing the employee experience across the organization.

Moving on to the examples, starting with expansion from a Modernization Suite to the Resilience Suite, a global analytic company, headquartered in UK, initially came to us to perform a migration to Microsoft 365, leveraging our data analytics capability to reduce the data estate to be moved into the cloud while maintaining the fidelity of the information during the move. Our success here was just the beginning of the partnership, as our Chief Information Officer was also concerned about protecting its Microsoft 365 Azure Active Directory, now known as Microsoft Intra-ID, and Azure Storage environments.

Our seamless migration engagement, bolstered by our platform play to address the entirety of the data protection needs, led to a competitive win with our Resilience Suite in Q2; ensuring it can secure its digital workplace for its 15,000 users.

Second, an expansion from the Control Suite to the Modernization Suite. A Fortune 100 multinational consumer goods corporation headquartered in the U.S. with more than 100,000 employees had deployed Microsoft 365, and needed additional capabilities for holistic data governance strategy. They originally leveraged our cloud governance product to operate their environment more effectively. They needed to understand how their content was being shared internally, and that only the right people have the proper access in accordance with their rigorous security requirements.

Once we demonstrated our ability to meet these needs, they added our tyGraph product in Q2. Leveraging our platform's data orchestration engine with an AI sentiment analysis model to assess the usage of their Microsoft 365 investments and gain better insights into employee engagement. And importantly, their journey with us will continue as we're in talks to extend our governance capabilities to improve their use of homegrown business workflows, as well as our cloud records product in the Resilience Suite to drive a more comprehensive approach to information management.

Third, expansion from the Resilience Suite to the Control Suite. A large Hawaii-based financial institution was concerned about data loss and ransomware attacks, and originally chose our Resilience Suite for data protection and frequent backups that were easy to use and met privacy statutes including the California Consumer Privacy Act.

Just two months later, they added our policies and insight product from our Control Suite, empowering them to manage their digital workplace, trigger automated alerts that identify critical issues, and enforce policies, mandates which have never been more important for global financial service institutions. And we're already in discussions with them to expand their Resilience Suite deployment with our products specific to Microsoft Power Platform and Azure as they broaden their digital workplace adoption.

As you can see from these examples, the AvePoint Confidence Platform offers a unique value proposition to companies of any size, in any industry, located anywhere in the world, regardless where they are in their digital transformation journey. We empower companies to optimize and secure the solutions that most commonly establish and underpin their digital workplace today. And going forward, we believe that the more automation will lead to even greater customer collaboration and efficiency. Our Q2 results make clear that our strategy is resonating both with the customers and with our partners, who are critical to our long-term success and with whom we continue to do incredible work.

Before I turn the call to Jim, I want to recognize the team for another strong quarter in signing new logos, which are the foundation of our future growth. One of the largest food and beverage companies in the world became an AvePoint customer in Q2. Purchasing our cloud governance and policy insights product to amplify the benefits of their data sources. The organization was looking to ensure the use of their data sets were safe, responsible and effective. With our products, they will now be able to process volumes of information by making sure the data is appropriately shared, accessible, interoperable and reusable. In other words, making information actionable.

Our ability to generate proactive insights will allow their security team to understand the information's context and make sure their governance policies align to their regulatory requirements. In addition to taking more proactive posture, there is a clear cost benefit with reduced time spent on investigating data breach events.

Our products provide the single pane of glass to monitor and analyze their data usage so they can protect their data and information from fraud and bad actors to safeguard their reputation and revenue. For more than two decades, AvePoint has pushed the boundaries of digital workplace through the workplace transformation by innovating to meet the needs of our customers, especially as they navigate dynamic macroeconomic environments.

As I hope my remarks today have made clear, we're well positioned for continued success and we're equally ready to maximize the massive opportunity ahead of us to unlock the value of generative AI to increase efficiency, boost productivity and drive critical innovation.

With that, I'll turn it over to Jim to discuss our financial results in more detail.

Jim Caci {BIO 18051667 <GO>}

Thank you, TJ, and good afternoon, everyone. Thanks for joining us as we review our strong second quarter results. And let me remind you that unless otherwise noted, I'll be referring to non-GAAP metrics. For the second quarter ended June 30, 2023, total revenues were $64.9 million, up 16% year-over-year, and once again, above the high end of our guidance. Within total revenues, second quarter SaaS revenue was $38.3 million up 39% year-over-year. And in Q2, SaaS comprised 59% of total revenues compared to 50% a year ago.

Looking at the business geographically, we saw solid performance across all regions, once again driven by year-over-year growth in our SaaS business. In North America, on a constant currency basis, SaaS revenues grew 35%, while total revenue grew 16%. In EMEA, on a constant currency basis, SaaS revenues grew 41%, while total revenues grew 10%. And in APAC, on a constant currency basis, SaaS revenues grew 46%, while total revenues grew 28%.

As of June 30, 2023, total ARR was $236.2 million, representing year-over-year growth of 26% and growth of 30% when adjusted for the impact of FX. We ended the second quarter with 495 customers with ARR of over $100,000, up 19% from the prior year period. As of the end of Q2, 49% of our total ARR came through the channel compared to 46% a year ago, and 48% at the end of Q1. And for Q2 specifically, 61% of our incremental ARR came through the channel compared to 56% for Q1. While this percentage may fluctuate from quarter-to-quarter, we expect the overall channel contribution to continue increasing, in turn driving ARR growth and operating efficiencies.

Turning now to our retention rates, which as you know are a primary area of focus for us and critical to our to our long-term growth strategies. Adjusted for the impact of FX, our trailing 12-month gross retention rate for the second quarter was 87%, in line with what we reported at the end of Q1. And we are pleased that our net retention rate for Q2 improved versus Q1, as NRR was 107% after adjusting for the impact of FX, compared to 106% at the end of the first quarter.

And as we see more and more examples of customer expansion, like TJ described, we expect this trend to continue. To remind you, our medium-term target for GRR is 90% plus, and for NRR is 110% to 115%. Both GRR and NRR improved on a reported basis, as Q2 gross retention rate was 85%, and Q2 net retention rate was 104%. This compares favorably to reported gross and net retention rates of 84% and 102% at the end of the first quarter, respectively.

Turning back to the income statement, gross profit for the quarter was $46.1 million, representing a gross margin of 71.1% compared to 73.4% in Q2 2022. The year-over-year gross margin decline is primarily the result of lower gross margins on services. Q2 operating expenses totaled $43.3 million, or 67% of revenues compared to $42.1 million or 75% of revenues a year ago, representing a year-over-year growth in dollars of only 3% and a significant reduction as a percentage of revenue. As a result, Q2 non-GAAP operating income was $2.9 million, or an operating margin of 4.4%, once again, above the high end of our guidance. This compares to an operating loss of $1.2 million, or an operating margin of negative 2.1% a year ago, as our sustained focus on profitable growth drove year-over-year margin expansion of more than 650 basis points.

Turning to the balance sheet and cash flow, we ended the second quarter with $222.9 million in cash and short-term investments. For the six months ended June 30, 2023, cash generated from operations was $9.3 million, while free cash flow was $8.5 million. This compares to cash used of $6.6 million, and free cash flow of negative $8.8 million for the six months ended June 30, 2022.

Lastly, with regard to share repurchases, during the six months ended June 30, we repurchased 3.3 million shares for a total cost of approximately $17 million. And through the close of trading yesterday, we have repurchased a total of 4.4 million shares for a total cost of approximately $23.8 million so far in 2023. As a reminder, our plan is to utilize $50 million for the year in repurchasing shares.

I would now like to turn to our financial outlook where for the full year, we are pleased to once again raise our expectations for total ARR, total revenues and operating income. For the third quarter, we expect total revenues of $67.6 million to $69.6 million, or 9% year-over-year growth at the midpoint. We expect non-GAAP operating income of $5 million to $6 million. And for the full year, we now expect total ARR of $258 million to $263 million, or 21% year-over-year growth at the midpoint. We now expect total revenues of $261.9 million to $265.9 million, or approximately 14% year-over-year growth at the midpoint.

Lastly, we now expect non-GAAP operating income of $15.9 million to $17.4 million.

We'll open for Q&A in a moment, but first I wanted to provide some additional color on our guidance with a focus on our cost expectations for the balance of the year. While still early we are beginning to see some signs of stabilization in the demand trends we closely monitor. And as such, we are starting to make some incremental investments to ensure we are well positioned for continued growth in 2024 and beyond.

Second, we will meet conditions necessary to be deemed a large accelerated filer as of December 31, 2023. And as a result, we expect some incremental costs in Q3 and Q4 relative to our prior guidance. Taken together, these two factors are why we are not raising our full year operating income guidance beyond the outperformance we achieved in Q2. But we are extremely pleased that even after factoring this in, our Q3 operating margin guidance represents year-over-year expansion of nearly 450 basis points and our new full-year operating margin guidance represents year-over-year expansion of approximately 750 basis points.

In summary, this was a strong quarter and a continuation of our momentum from Q1. While we remain mindful of near-term economic uncertainty, we continue to be excited by the opportunities we see in 2023 and beyond to deliver shareholder value by advancing the digital workplace, capturing large and growing markets and prioritizing profitable growth.

Thanks for joining us today. And with that, we'd be happy to take your questions. Operator?

Questions And Answers

Operator

(Question And Answer)

Yes. Thank you. At this time, we will begin the question-and-answer session. (Operator Instructions) At this time, we will pause momentarily to assemble the roster. And today's first question comes from Gabriela Borges with Goldman Sachs.

Q - Max Gamperl {BIO 21673024 <GO>}

Hi, yes, this is Max Gamperl on for Gabriela. Thanks for taking our questions. A couple from us, could you give us more color on what you're seeing in the general macro environment and how things have trended from a customer budget standpoint over the past few months? And you said you're seeing early signs of stabilization, so what are these signs that you are seeing? Thank you.

A - Tianyi Jiang {BIO 20151191 <GO>}

Yeah, thank you for the question, Max. Yeah, from a macro perspective, we remain cautious. We are happy with the momentum we have achieved so far in Q2. However, on the enterprise segmentation, we still see continued elongation of deal cycles. It's not worse than Q1, but we continue to see that, so we remain cautious. On our mid-market and SMB, we continue to see very strong growth through our channel scaling.

A - Jim Caci {BIO 18051667 <GO>}

Yeah, and just to add on to that, we do look at a number of metrics, including, obviously, our bookings in terms of that happened just in this past quarter and looking at the life cycle of those bookings. We also spend a lot of time looking at our CRM data in terms of how things are progressing through the pipeline. And by looking at that information, as T.J. Alluded to, we're seeing that the things are not necessarily improving, but they're also not getting worse. So when we look at how things are evolving through the process, it gives us a little comfort that there is some stabilization and we don't see things getting worse.

Q - Max Gamperl {BIO 21673024 <GO>}

Thank you. That's very helpful. And then, as a follow-up, how are you thinking about investing as you anticipate tailwinds from Gen-AI implementations, especially in terms of headcount? And also, more broadly, how are you balancing growth versus profitability as you enter this new environment? Thank you.

A - Tianyi Jiang {BIO 20151191 <GO>}

Yeah, that's a great question. So first and foremost, investing in the product. So we mentioned a great example of our preview records, product that's already showing very good results in productivity improvements in the field. And it's been very well received by our customers in EMEA as well as in Australia. We will disclose more at our upcoming Shift Happens conference in D.C. in October to showcase how we imbue the latest iteration of AI and machine learning into our product to highlight the platform play.

Second, as I mentioned, we do win on the platform play. And the theme for this year continues to be cloud optimization. So in short, leveraging our platform of solutions, our data orchestration engine, to be able to help our customers maximize their ROI in the cloud. So overall, that's the major theme we see across all companies as to how to essentially save and drive more economic outcome out of their existing investments. And this is where we will continue to shine.

And third, we'll continue to invest into channel to scale. And we see really, really good results just in the last few years alone and a couple years. And as we clearly articulated before of massive green fields for us in the SMB segment, especially selling to MSPs. So there we'll continue to invest to overall achieve profitable growth.

Q - Max Gamperl {BIO 21673024 <GO>}

Very helpful. Thank you.

Operator

Thank you. And the next question comes from Kirk Materne with the Evercore ISI.

Q - Chirag Ved {BIO 22201702 <GO>}

Hi, this is Chirag Ved on for Kirk. Congratulations on the strong results and thank you for taking the question. So, TJ, there are some concerns that as interest around AI continues to grow, that customers may reprioritize spend away from other areas in IT. So it doesn't look like you're seeing any of that based on your gross and net retention rates, but can you comment on that concern and maybe what you're seeing in terms of your discussion related to Gen AI right now? Thank you.

A - Tianyi Jiang {BIO 20151191 <GO>}

Yeah, that's a great question. As we stated in the prepare remarks, the foundations to effective AI deployment, it's actually based on the premise that you have really good information management strategy. That means making sure that you have data collated from all your various sources across your enterprise. And also making sure that the data property classified, intact and have right lifecycle. So you don't get into trash in trash out issues when you build that proprietary layer of modeling on top of generative foundational models. So every enterprise is doing this today to ensure that they can leverage their own decades worth of domain data, proprietary enterprise-owned data to actually form better capabilities and innovation on top of AI to then drive purposeful outcome. So that's the space we actually play very well in, and we've been doing this for enterprises for the past decades.

In fact, we're not stranger to machine learning AI. As many of you know, my background is machine learning AI. We've been a longtime consumer of Azure Cognitive Services and other open source AI capabilities, especially for government, on-prem, and hybrid deployment scenarios. So all these things actually points back to the importance of information management capabilities. So it's not a separate use case from AI. It's really very much of the same motion to make AI effective and workable for enterprise.

Q - Chirag Ved {BIO 22201702 <GO>}

Thank you. And then maybe one for Jim. It looks like net retention rate increased sequentially, excluding FX to 107%. Can you speak to what contributed to the step function increase? And what needs to happen from your perspective to hit the net retention rate targets that you outlined?

A - Jim Caci {BIO 18051667 <GO>}

Yes. Great question. So this quarter was a strong quarter for us for existing customer growth in terms of additional ARR. For the first time, we're over -- our incremental ARR for the quarter over 50% of that came from our existing customer base. So we had a strong quarter as it related to that existing customer base. And even more so, so that definitely contributed to the NRR growth. And then in addition to that, we saw a really strong quarter for existing customers who were with us less than a year, kind of adding to their original purchase, which is a strong indicator for us. Number one, that our customers are enjoying what the services we're providing, the software we're providing. But also consuming more. And it's interesting that when they uptick in the first year, it's almost a leading indicator. Because that sale does not impact our NRR. We won't see that impact for a full year.

So when we think of NRR, it's really a trailing 12-month or a lagging indicator. And when we sell to a customer within that first year, it's really a leading indicator because it's going to bode well for future NRR. So we feel good about that. I do think we still have a lot of work to do to get to those medium-term targets that we put out a couple months back in March to get to that 110% to 115%, so we definitely want to continue to see continued execution on what we've been doing so far.

Q - Chirag Ved {BIO 22201702 <GO>}

Sounds good. Thank you.

Operator

Thank you. And the next question comes from Nehal Chokshi with Maxim Group.

Q - Nehal Chokshi {BIO 16526682 <GO>}

That would be Northland Capital Markets. Thanks for the question. We had a really strong incremental ARR. Jim, you already sort of alluded to one of the drivers of that was NRR being significantly positive, but just to be clear, is that NRR moving up a result of increasing receipt of existing customers or increasing functionality?

A - Jim Caci {BIO 18051667 <GO>}

More of the latter in terms of additional functionality that they're receiving, but we had a strong quarter across the board in terms of -- if we look at it from a couple of different things. It's really the demand for the SaaS platform, 39% growth was really strong. Geographically, across all three segments, we saw strong growth, particularly on the ARR side, where each of the three segments really came in just at about the same rate for our consolidated growth rate of that 26%. So really right on target. We talked about channel. We saw 61% of our incremental ARR coming through the channel, really strong. So, and again, that existing customer base that I referred to before, a really strong quarter. So we kind of saw it across the board, not just from the existing customer base, but really throughout both new and existing.

Q - Nehal Chokshi {BIO 16526682 <GO>}

Okay. And then your ARR guidance raise is great to see, but it looks like it's largely bearing the beat [ph] in ARR. And so is that a reflection that the improvement in sales motion, you're taking it as a quarter-by-quarter basis?

A - Tianyi Jiang {BIO 20151191 <GO>}

Yes, I think, what we're trying to factor in for as we think about our ARR guidance is that, we had a really strong quarter. We had strong growth, meaningful operating leverage, and obviously, we generated a lot of cash in the quarter as well, our first half of the year. And when we think about that ARR guidance, we are trying to take into the fact -- take into account that we had a good quarter. But there's still macro uncertainties out there, and we're trying to plan accordingly. We talked at the beginning of the year, that this year was going to be uncertain. It was going to be bumpy. It was going to be lumpy. And so although we had a very good quarter, we're excited about that. We're also trying to really be prudent over the remainder of the year. And factor that into the remaining guidance.

Q - Nehal Chokshi {BIO 16526682 <GO>}

Great. Thank you. Congratulations on a great quarter.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) And the next question comes from Jason Ader with William Blair.

Q - Jason Ader {BIO 1878505 <GO>}

Yes. Thanks, I just wanted to clarify on the comments on demand. You said things are not getting worse. And I just want to see if you meant for all three segments of your business, enterprise, SMB and mid-market, because you talked about SMB and mid-market being -- seeing good growth through channel and enterprises seeing elongation. Is the enterprise piece of the business stabilized or is that actually getting a little bit worse while the SMB and mid-market are getting better?

A - Tianyi Jiang {BIO 20151191 <GO>}

Hi Jason. Yeah, so enterprise segmentation, it's steady as she goes, no different than Q1. So that's where we see, however, we are remaining cautious. On the mid-market SMB, it continues faster growth rate, just as we've seen before. So everything is pretty much -- we are being cautious because the macro factors, however, we are not seeing a deterioration, that's why we talk about stabilization.

Q - Jason Ader {BIO 1878505 <GO>}

Okay. So, and then, Jim, your comment on bookings, is the implication that bookings actually -- bookings growth ticked up in Q2 versus Q1? Or it was similar bookings growth rate as Q1?

A - Jim Caci {BIO 18051667 <GO>}

We actually saw an uptick, to your point. We did see significant improvement in bookings in Q2, which was kind of our expectation. We expected Q1 to be on the lighter side, and that was right in line with expectations for Q1, and Q2 was definitely a stronger quarter.

Q - Jason Ader {BIO 1878505 <GO>}

Great. Okay. And then, TJ, when you think about your product portfolio and 30-plus products, could you call out a few products right now that are seeing a lot of interest where either existing customers are adding that product on, or it's a key part of some of your wins for new customers?

A - Tianyi Jiang {BIO 20151191 <GO>}

Yeah. Great question, Jason. So I called out our cloud records product. It's something that continues to gain more traction. Not only does it save our customers from a storage cost perspective from archiving optimization, but also leaning to leveraging machine learning and AI to actually do much better data classification and lifecycle management. That's a high-performance product. The other one is tyGraph. We talk about sentiment analysis and employee engagement management. Every C level today worries about that from a hybrid work scenario perspective. And third one, I will call out is Entrust, which is basically entitlement management and operations management of your cloud deployments. Again, it goes in terms of the optimization cycle. Customers want to know how are these licenses are being used? How can I reduce costs on operations?

Q - Jason Ader {BIO 1878505 <GO>}

Great, great. And when you talk about gen AI, I understand that there's an element of incorporating it into your products. And maybe even having separate SKUs around gen AI going forward. But can you talk at all about how internally you're using some of the gen AI technologies out there? And things like Copilot from GitHub and other tools that related to gen AI that might help you guys kind of accelerate development and lower costs?

A - Tianyi Jiang {BIO 20151191 <GO>}

Yes, absolutely. So I think we mentioned even in the last earnings, we already utilized GitHub, Copilot on the dev side. We are using it more for the senior developers who see material efficiency boosts up to 30%. The newer developers who are still learning the ropes are less so. So because to be a sophisticated user, you actually need to know whatever is generated is actually truly efficient and useful for the segment of the feature that you're working on as a developer.

But for the other side, again, it's not just for dev. Gen AI, we're leveraging and deploying across customer success, across customer support, across marketing, content marketing, to actually make things more efficient. So, for example, in customer support, we have decades of user -- use case support, Tier 1 through 5 -- Tier 1 through 3, and then go into premier support. And, of course, we can also ingest all of our user guides into Intelligent Chatbot that can actually interface and do even Tier 1 support for our customers to alleviate the load to level up the Tier 1 responsiveness.

And, of course, on the content side as well, be able to generate much more intelligent content as a drafting tool to make our content marketers and product marketing folks much more efficient. So overall, leveraging generative AI allow us to bring up the overall quality of work, as well as shorten the timeline to deliver results. So these are various aspects of our company we think we can really level up. Ultimately, it's to improve the bottom line.

Q - Jason Ader {BIO 1878505 <GO>}

Awesome. Thank you.

Operator

Thank you. And the next question comes from Brett Knoblauch with Cantor Fitzgerald.

Q - Brett Knoblauch {BIO 20597300 <GO>}

Hi, guys. Thanks for taking my question. I guess a lot of software companies have reported in the back half of June as being kind of like a material slowdown. It appears that's something that you guys didn't see given the strength that you're talking about in the quarter. Am I right in how I'm framing that?

A - Tianyi Jiang {BIO 20151191 <GO>}

That's right. We don't see a slowdown.

Q - Brett Knoblauch {BIO 20597300 <GO>}

And I guess you guys talked about being a very uncertain macro year, but 2Q was stronger than the first quarter. And I guess the full year ARR growth guide is about 21%. You guys have held up ARR growth pretty nicely in 1Q and 2Q at 26%. So I guess what's baked into the guidance that we're going to expect to see that, call it de-sell over the coming quarters to 21%. Is this called larger numbers or conservatism?

A - Jim Caci {BIO 18051667 <GO>}

Yeah, I think it's maybe a little bit of both, right? I think we're still thinking that this year, although as TJ just said, we don't see any deterioration in the pipeline, but we're sitting here in August and we're looking out for the rest of the year. And I still think it's -- there is some uncertainty out there in terms of the macro environment and although right now what we can see looks good I think it's prudent for us to we've raised guidance but to manage that accordingly and I think we feel real comfortable with the guidance we put out there and we don't really see it as a deceleration we think we're just trying to plan accordingly and be again be prudent and be thoughtful in terms of the guidance we're providing.

Q - Brett Knoblauch {BIO 20597300 <GO>}

Understood. And can you just help frame how we should think about when you kind of announce new functionality for example what we did with kind of cloud backup for salesforce? Is that something that you see like immediate demand pickup for is that something that your salesforce goes out and targets I guess when you announce stuff like that how should we think about that maybe adding to the pipeline?

A - Tianyi Jiang {BIO 20151191 <GO>}

Yes. So clearly the multi cloud support continue to be focused for us. So when we do announce the support for salesforce, especially on FedRAMP data centers, be able to sell to more secure oriented government clients, that will help strengthen our pipeline build. There is different flavor -- different depends on the sector we support. There's some learning curve for our sellers also to sell to a different audience, for example, in the records section, right? We're not just selling to traditional IT, but we're actually selling to record managers. So there's a bit of that training and onboarding and on ramping for our sellers to be able to familiarize in the new features and deployment out there.

But overall, you're absolutely right. These new products go a long way to strengthen the pipeline. But ultimately, the goal is to improve NRR for us to be able to do the cross-sell and upsell for our existing customer base.

Q - Brett Knoblauch {BIO 20597300 <GO>}

Perfect. Thanks, guys. Congrats on the quarter.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thank you.

A - Jim Caci {BIO 18051667 <GO>}

Thank you.

Operator

Thank you. And this concludes the question-and-answer session. I would like to return the floor to TJ Jiang for any closing comments.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thank you. First, I want to thank the entire AvePoint team for their dedication to advancing the digital workplace, capturing growing markets and prioritizing profitable growth. I've been meeting with our regional management teams the EMEA, APAC, North America, in person these last few weeks during our quarterly business overviews. And I'm confident, we're well-positioned to continue capitalizing on the opportunity in front of us.

Lastly, as I shared during our Investor Day, we're excited to host our upcoming Shift Happens conference in Washington, D.C., in October. We're especially thrilled to return to an in-person format, and I encourage you to attend. In addition to our continued innovation around AI, you'll hear more from our team and other industry leaders about experiences, strategies, and best practices that define the digital workplace transformation. We'll release more information about topics and speakers in the coming weeks. Thank you for joining us today.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect your lines.