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AvePoint, Inc.

Second Quarter 2026 Results Conference Call

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PRESENTATION

Operator

Good day, and welcome to the AvePoint, Inc. Second Quarter 2026 Results Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on a touchtone phone. To withdraw your question, please press star, then two. Please note this event is being recorded.

I would now like to turn the conference over to Jamie Arestia, Head of Investor Relations.

James Arestia

Thank you, Operator.

Good afternoon and welcome to AvePoint's second quarter 2026 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 gross profit, non-GAAP gross margin, non-GAAP operating income, and non-GAAP operating margin, which are not measures prepared in accordance with U.S. GAAP. The non-GAAP measures are included in this presentation as we believe they provide Investors with the means of 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 most directly comparable GAAP financial measures is available in our second quarter 2026 earnings press release, as well as our updated Investor presentation and financial tables, all of which are available on our Investor relations website.

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

Tianyi Jiang

Thank you, Jamie, and thank you to everyone joining us on the call today.

Q2 was another strong quarter for AvePoint, and our results make clear that in today's rapidly evolving AI-dominated business landscape, our customer value proposition is resonating better than ever. This is true for organizations which are new to AvePoint, as well as for our existing customers which are now consuming even more of the AvePoint confidence platform. This broad-based demand is reflected across our second quarter performance, where we once again outperformed all guided metrics, delivered double digit growth in net new ARR, our 13 straight quarter, and achieved several record KPIs.

As Jim and I will discuss, AvePoint has never been in a stronger position to capitalize on the multiple growth opportunities ahead of us. What is that value proposition for customers? This is where I want to spend my time today. Let's jump in. Agentic AI represents perhaps the largest technological opportunity of our generation, and companies around the world are moving swiftly to ensure that they fully harness its capabilities.

In the course of these deployments, employees at organizations of all sizes in all regions and across every industry have moved beyond chatbots and Copilots and are now creating autonomous agents that can access sensitive data, make critical decisions, and take action across the enterprise. But as these agents proliferate, new challenges are emerging, and we frequently see that many organizations cannot answer some very basic questions, such as how many AI agents are operating in the business and who owns them, what data are they accessing, and are they fully compliant with Company policies? What risks are they introducing, and can you proactively recover from any granular damage they cause? What do these agents cost, now and at scale? Perhaps most importantly, are these agents delivering measurable business value?

Our customer conversations show that answering these simple questions is in fact far more difficult because enterprises today are facing a new form of sprawl. Across Microsoft 365, Google Workspace, Salesforce, Copilot Studio, and countless custom environments, AI agents are being created faster than organizations can manage them. As a result, we're seeing the emergence of shadow AI, agents operating outside traditional governance frameworks, often with access to sensitive information and little organizational oversight.

Our formal research proves this as well. Our recently published State-of*AI report, which surveyed 750 global IT leaders, found that 88% of organizations reported at least one security incident tied to agents in the past year, and that nearly 20% don't know whether their employees are using unsanctioned tools to build AI agents in their own environment. Without answers to those questions, without trust in this new powerful technology, and without the ability to address shadow AI, AI adoption and ROI at scale will eventually hit a wall. It's not surprising, therefore, that nearly 90% organizations have delayed their AI deployments by an average of six months, citing this lack of trust.

Just as cybersecurity became essential to the internet, and governance became essential to the cloud, trust will become the essential unifying layer for AI. This is where AvePoint is uniquely positioned. For 25 years, AvePoint has helped organizations govern, secure, and manage their most critical enterprise data.

We have built deep expertise in understanding who has access to information, how data is being used, and how organizations can scale innovation without scaling risk. That foundation becomes even more valuable in the age of AI, because AI agents are only as trustworthy as the data, governance and controls surrounding them. This is precisely why we launched AgentPulse, which became GA in Q1 as part of the tiered bundles of our control suite.

At a high level, AgentPulse gives organizations unified visibility, governance, and cost control for every AI agent operating across their environment, all from one centralized command center. More specifically, AgentPulse can discover previously unknown agents, identify risky permissions, enforce data governance policies, retire unused agents, assign ownership, and gain visibility into the true economics of their AI investments. Critically, our approach is platform neutral. We can do all these things across the most commonly used cloud ecosystems and business applications, distinguishing AvePoint from the more narrowly focused point solutions, as well as the individual native capabilities of the hyperscalers.

This is the value that only AvePoint can provide today, and we believe will drive incremental demand in the years to come. Gartner is currently defining a new agent management platform category, where it projects that by 2029, enterprise investments will exceed $15 billion, and the average Fortune 500 company will be managing 150,000 agents. This creates a powerful strategic position for us, because as AI adoption grows, organizations will need more than basic intelligence. They will need the visibility, accountability, compliance, and operational control of the AvePoint confidence platform, the unifying trust layer for AI. Importantly, our ongoing innovation ensures that we will capitalize on this durable and growing market opportunity.

This includes the launch of AgentPulse on a standalone basis in early July, as well as our announcement this week at Black Hat of new kinetic classification and rapid recovery intelligence capabilities: two solutions which work hand-in-hand to continuously evaluate data sensitivity, provide security teams with a real-time view of their critical data, and help them quickly restore it at machine speed when an incident occurs. That's where we see the market going. But let me come back to the quarter and share some examples of the team's success with both new logos and existing customers.

One of the largest American retail corporations has been a long time AvePoint customer, and in Q2 opened up AI agent building to its 36,000 employees, immediately introducing risks around agent sprawl, cost exposure and compliance. After evaluating native tools and other leading cybersecurity vendors, they chose AgentPulse through our Control Plus bundle, giving them a single pane of glass to immediately inventory, analyze, and govern more than 10,000 agents. By becoming the trusted layer beneath their entire agent environment, AvePoint is now critical to how they scale AI safely, deepening a relationship that now spans governance, security and resilience across their organization, and elevating this customer into our million-dollar ARR cohort.

Similarly, one of the largest dental insurance providers in the United States, with more than 12,000 employees, faced a lack of visibility and potential sprawl as AI co-pilots and agents began proliferating across their environment. After evaluating alternative solutions like Agent 365, they selected AgentPulse based on our more actionable governance capabilities and lower overall costs. This expansion successfully transitioned this existing customer from an a la carte licensing to our Control Plus bundle, validating a land and expand motion that extends our trusted governance relationship directly into the management of their emerging AI ecosystem.

Two Canadian corporations became new AvePoint customers in Q2. One, a consumer lender, knew that the native backup and archiving capabilities from Salesforce could not meet their long-term requirements. After successful proof of concept, the organization trusted AvePoint to protect their critical Salesforce data. Since that deployment, we have created new opportunities to expand into Microsoft 365 protection, along with broader governance capabilities from the control suite.

Second, a financial services company came to us at a crossroads. Their new CISO paused a planned co-pilot deployment until concerns around sensitive information could be addressed. We quickly acted on proof of concept, which provided the visibility and oversight their CISO required, removing a key barrier to AI deployment for this organization. With the confidence to move forward with co-pilot across approximately 3,000 employees, the customer is now evaluating additional capabilities within our resilience suite.

Lastly, one of the world's largest banks signed a seven-figure upsell deal in the quarter. A longstanding customer of all three of our suites, they needed to address strict legal requirements for record management and data protection ahead of a multi-petabyte modernization effort. As part of this expansion, the customer extended their governance and records management capabilities within our control suite to include both on-prem and cloud data. By doing so, the organization has further strengthened its governance framework and lay the foundation for secure and compliant AI adoption.

AvePoint's mission has always been to give organizations the confidence to innovate faster while maintaining control of their data, security, and compliance obligations. That mission was relevant when we founded the Company 25 years ago, and is equally critical today as customers rely on us to safely deploy enterprise AI at scale. We believe the winners of the AI era will not simply be the companies building the most agents. The winners will be the companies enabling enterprises to trust those agents. As Investors evaluate the long-term opportunity in artificial intelligence, we believe one thing will become increasingly clear. The future belongs to trusted AI, and AvePoint is building the unifying trust layer for AI that makes that future possible.

Thank you again for joining us today. I will now turn it over to Jim.

Jim Caci

Thanks, TJ, and good afternoon, everyone. Thanks for joining us today.

Those of you who have followed the AvePoint story since our first Investor Day in 2023 know that the pursuit of our longer-term strategic priorities, as well as our quarterly results along the way, have been driven by a few key mantras. These include our unwavering commitment to profitable growth, our focus on controlling what we can control, and the importance of consistent execution and delivering on what we said we'll do. This mindset allowed us to achieve our longer-term goals of GAAP profitability and the Rule of 40 well ahead of schedule. It has also produced quarterly results consistently highlighted by outperformance on the top and bottom line, as well as steady improvements to key customer and operational metrics.

We are pleased to report another set of these results today, as Q2 was highlighted by an acceleration of both total ARR growth and total revenue growth after adjusting for FX, record net new ARR dollars and meaningful acceleration of net new ARR growth, strong execution across verticals and customer segments, especially at the enterprise level, and our eighth straight quarter of GAAP operating profitability and the ongoing expansion of our GAAP operating margins, even as we continue making incremental strategic investments across the business.

With that, let's dive in a bit deeper into the quarter. Total Q2 revenues were $124.5 million, representing 22% growth year-over-year and above the high end of our guidance. On a constant currency basis, total revenue growth accelerated to 21%. Q2 SaaS revenues were $98.5 million, growing 27% year-over-year and representing 79% of total revenues. On a constant currency basis, Q2 SaaS revenues grew 26% year-over-year.

Term license and support revenue was flat year-over-year and represented 8% of Q2 revenues compared to 10% a year ago. Lastly, services revenue were $15.7 million and represented 13% of Q2 revenues compared to 14% a year ago.

Turning to our revenue performance on a regional basis, in North America, total revenue growth accelerated to 23% year-over-year, driven by SaaS revenue growth of 27%. In EMEA, total revenue growth was 27% year-over-year, driven by SaaS revenue growth of 28%. In APAC, total revenues grew 16% year-over-year, driven by SaaS revenue growth of 27%.

On a constant currency basis, EMEA SaaS revenues increased 26%, while total revenue growth accelerated to 24% year-over-year. For APAC, SaaS revenues increased 27% on a constant currency basis, while total revenues increased 16%.

Switching to ARR, which we believe is the most important metric for Investors, we saw strong performance from all three regions in Q2, as North America ARR grew 21%, EMEA ARR grew 34%, and APAC ARR grew 25%. Taken together, we ended the quarter with total ARR of $465.1 million. This represents 27% year-over-year growth and 24% after adjusting for FX, both of which are an acceleration from Q1. As a result, net new ARR in Q2 was a record $29.9 million, representing growth of 35% year-over-year and a meaningful acceleration from last quarter. Additionally, we are pleased that all three of our regions are now above $100 million in ARR, as our APAC business achieved this milestone in Q2.

We ended the second quarter with 911 customers with ARR of over $100,000. This represents 26% growth, which is both an acceleration from Q1 and the highest growth for this metric in more than three years. More importantly, our larger customer cohorts of greater than $250,000, greater than $500,000, and greater than $1 million of ARR each grew at or above 30%.

Finally, we are pleased to have added a record number of net new logos for the 250,000, 500,000 ARR cohorts in the quarter. Taken together, these results continue to show the durable and accelerating enterprise demand for our ability to solve their most critical data management challenges. This ability extends to every customer segment we serve, as we also added a record number of net new SMB logos in Q2.

Much of this success is attributable to the continued rapid growth of our MSP business and strategy of driving more business through the channel. At the end of Q2, 59% of our total ARR came through the channel, compared to 56% a year ago, and two-thirds of our incremental ARR in Q2 came through the channel. Our MSP segment continues to be one of AvePoint's fastest growing areas, and we intend to continue investing here to ensure we efficiently capture the enormous market opportunity that it serves.

Turning now to our customer retention rates, adjusted for the impact of FX, our Q2 gross retention rate was 89%, and our Q2 net retention was 110%, both of which were in line with Q1. Similar to prior quarters, our migration products again served as a two-point headwind to GRR, given their naturally lower retention rates. On a reported basis, Q2 GRR was 89%, and NRR was 111%, both of which were also in line with Q1.

Turning back to the income statement, Q2 gross profit was $91.7 million, representing a gross margin of 73.7%. This compares to 74.8% a year ago, and while the year-over-year decline is again the result of lower services gross margins, the 83% gross margins on our software products is in line with both the prior quarter and the prior year. Q2 operating expenses totaled $71.5 million, or 57% of revenues. This compares to 56% of revenues a year ago, reflecting our plan for increased investments across the business in 2026.

As a result, Q2 non-GAAP operating income was $20.3 million, which represented an operating margin of 16.3%, and was above the high end of our guidance. Importantly, we continue to focus on GAAP profitability through our ongoing management of stock-based compensation, which was 8% of Q2 revenues, compared to 11% a year ago. As a result, GAAP operating margins were 8.2% in Q2, and expanded nearly 130 basis points year-over-year, and are now at 10% on a trailing 12-month basis.

For the Rule of 40, which we define as the sum of ARR growth and non-GAAP operating margin, we finished Q2 at the Rule of 45, on a trailing 12-month basis. Using revenue growth and free cash flow margin to calculate the Rule of 40, we finished Q2 at the Rule of 47, again on a trailing 12-month basis.

Turning to the balance sheet and cash flow statement, we ended the quarter with $417.3 million in cash and cash equivalents. For the first six months of the year, operating cash flow was $40.2 million, or a 17% margin, while free cash flow was $37.7 million, or a 16% margin. This compares to operating cash flow of $20.8 million and free cash flow of $18.3 million in the same period a year ago. Lastly, we are pleased that on a trailing 12-month basis, our free cash flow has surpassed $100 million and is at 22% margin.

Over the last few quarters, we have discussed the acceleration of our share repurchases. Last quarter noted that the $60 million that we utilized in Q1 outpaced the entirety of our buyback spend for all of 2025. This pace largely continued in Q2 as we spent approximately $50 million to repurchase another 4.9 million shares. When comparing our year-to-date buybacks with the first half of 2025, we have repurchased nearly nine times as many shares this year at approximately 70% of the cost per share. Through the close of trading on Friday, we have bought another 853,000 shares for approximately $10.7 million. Taken together, we have spent $121.5 million this year on share repurchases and have approximately $108.6 million remaining in our share repurchase program.

These actions reflect our belief in the underlying strength of the business and our commitment to driving Shareholder value. Importantly, the buybacks have more than offset the dilutive effects we see from our employee incentive programs.

Turning now to our guidance, where I want to provide some color behind our current expectations. First, we are again raising our full year guidance for ARR, reflecting our momentum and the demand we see. Second, similar to last quarter, our updated full year guidance for revenue and non-GAAP operating income only includes the Q2 outperformance relative to guidance as we account for the uncertain SaaS and term license revenue mix in the second half and the impact it may have on reported revenues.

Third, given the enormous and rapidly growing market opportunity we currently see, we are increasing our expense plans for the second half of the year with two primary areas of focus. The first is technology, where existing investments have already driven rapid productivity improvements for our engineering teams and where further investment will accelerate the R&D transformation and drive similar efficiencies across the business. The second area of focus will be our go-to-market motion, where additional support for sales capacity, partner enablement, and enhanced brand awareness will allow us to better capture the market demand, support pipeline growth, and improve campaign conversions.

Lastly, similar to last quarter, the final point is around FX, where the global nature of our business exposes us to fluctuations in currency exchange rates. Our updated guidance reflects the corresponding incremental FX headwinds we expect for the rest of the year, which more than offset the ARR raise and the Q2 outperformance. In other words, absent the impact of FX, our full year expectations for top line growth have accelerated relative to our guidance last quarter.

As a result, for the third quarter, we expect total revenues of $128.2 million to $130.2 million, or growth of 18% at the midpoint. This includes an FX headwind of $2.4 million that is incremental to what was implied in our prior full year revenue guidance. On a constant currency basis, we expect revenue growth of 19% at the midpoint. We expect non-GAAP operating income of $21 million to $22 million. For the full year, we now expect total ARR of $522.1 million to $528.1 million, or growth of 26% at midpoint. This includes a $1 million raise from our prior guidance offset by an incremental FX headwind of $2 million.

On an FX-adjusted basis, we expect total ARR growth of 26% at the midpoint, a modest acceleration from our prior guidance. We now expect total revenues of $508.5 million to $512.5 million, or growth of 22% at the midpoint. This includes the Q2 beat of $3.7 million, offset by an incremental FX headwind of $5.6 million. On a constant currency basis, we now expect revenue growth of 21% at the midpoint, an acceleration from our prior full year expectations. Lastly, we now expect full year non-GAAP operating income of $86.4 million to $88.4 million, which includes the Q2 beat of $1.2 million, the offsetting FX headwind of $1.9 million, and the elevated investments I discussed a moment ago.

Finally, on a Rule of 40 basis, the midpoint of our updated full year guidance is the Rule of 43. We have again included a slide in our Investor presentation that provides a walk from our prior full year guidance in May to today's updated outlook.

In summary, this was an excellent quarter from our team, with multiple data points confirming that our momentum and success with new and existing customers continues to strengthen. As we look to the market opportunity ahead of us, we see ample opportunities to continue capitalizing and driving Shareholder value, both in the second half of 2026 and in the many years to come. Thanks for joining us today.

With that, we would be happy to take your questions. Operator?

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Shrenik Kothari with Baird. Please go ahead.

Shrenik Kothari

Yes, thanks for taking my question. TJ, it's really encouraging to see the early AgentPulse traction, particularly the wins. You mentioned customers choosing you for more actionable governance and lower total cost. You initially bundled AgentPulse within Control, and you have since launched it at standalone as well. Just curious, how much of the pipeline uplift today is directly attributable to AgentPulse? How are you thinking about standalone adoption versus using it to pull customers into the broader Control Plus deployments? Just—and then a quick follow-up question, thanks.

Tianyi Jiang

Great, thanks for the question. Yes, we're very pleased with the reception thus far on the AgentPulse product. It's definitely driving customer conversations and interest in the bundles. This is also why we actually announced the standalone in July, because the demand is quite high. The number of Control packages customers roughly doubled in Q2 versus the prior quarter. Also, our pipeline stats cited last quarter around Control bundles are roughly the same percentage so far this year. But we did note that the average with the AgentPulse in the dollar value of those deals are two to three times larger.

Also, given the latest data, we also see that on average, AgentPulse customer are managing well over 5,000 agents, AI agents. What's remarkable is that the number of those agents are growing, doubling every quarter, every three months. This is something that it's definitely a high priority item for our customers. This is why we made that standalone SKU. Thank you.

Shrenik Kothari

Great, very helpful. Just a quick follow-up for Jim. I know you previously had disclosed Control represents roughly 40% of pipeline. Today's commentary suggests that the momentum has strengthened further. However, the NRR still remains and hovers around that 110%, has not yet begun moving towards that 115% target that you said. If you can help just unpack a bit on the dynamics, like why are these larger expansion, as TJ just mentioned, including Control and AgentPulse, not yet sort of translating into stronger expansion, and what should we expect next? Thanks.

Jim Caci

Sure. Thanks, Shrenik. I think maybe to keep in mind, it's still very early in terms of AgentPulse. As we mentioned in Q1, it was introduced midway through the quarter, obviously, we've seen really good pipeline creation and demand for those bundles that TJ referred to, but most of that is still in pipeline. We saw nice closing and bookings in Q2, but there's still a ton of pipeline.

In addition to that, we just introduced the standalone SKU in July. We haven't seen any real impact, obviously, on the Q2 numbers for that, but we do expect to see an impact moving forward. We feel really good about the 110% of NRR where we stand today. We still have that long-term target of 115%. We feel good about that. I do think over time here, we're going to see our continue moving forward toward that 115%.

Again, I feel good about the pipeline we've created and that the longer-term target that that will help us achieve the NRR goals that we've set.

Shrenik Kothari

Very helpful. Thanks a lot, TJ and Jim. Thanks.

Tianyi Jiang

Thank you.

Operator

Our next question comes from Joseph Gallo with Jefferies. Please go ahead.

Joseph Gallo

Hey, guys. Thanks for the question. TJ, I love all the prepared remarks on governance. That was certainly a key theme, Black Hat. Obviously, it's growing your pipeline, but I wanted to ask, do you think you have the brand awareness in the market where you want it? Is that where the incremental OpEx spend is going? I'm just curious because I imagine it's a tremendously easy cross-sell, but can this also be a net new logo driver?

Tianyi Jiang

That's a great question. I'll go first and then Jim can chime in. For sure, in our ecosystem, we have the brand name, especially within the Microsoft Cloud ecosystem. We had a large team at Black Hat Conference as well, and we talked about the new product releases this week around kinetic classification as well as rapid intelligence recovery capabilities. It's all part of our AI trust layer framing that increasingly customers see our confidence platform as the trust layer for AI to actually confidently scale AI deployment without scaling risks. These are really resonating with our customers and partners.

Now, in terms of branding outside of our ecosystem, we're definitely going to do more. Jim actually mentioned specifically on this topic around we are increasing some of the work on go-to-market, on branding, so investing for growth because we see the demand in the market, we see the need for our solutions, and we see the actual evidence of growth for our product line. You will see more product announcements coming as the way to build out this AI trust layer across data, infrastructure, AI and AI agents. Stay tuned to see more of that from us.

Joseph Gallo

Awesome. Then maybe just as a follow-up for Jim, how is U.S. fed (phon), demand, what's the pipeline look like, what are you expecting in the second half this year? Is that what's giving you the confidence in the ramp or the acceleration, the further acceleration in ARR growth, constant currency? Thank you.

Jim Caci

Yes, thanks, Joe. Yes, I think you're spot on. We definitely see pipeline creation really accelerating, so that gives us some confidence. Also, our ARR really is following a trend that we've seen really over the past several years where Q2 accelerated over Q1, and then historically, our second half of the year accelerates from the first half of the year. Right now, '26 is playing out exactly that way. We see nice pipeline acceleration from some of the things T.J. mentioned about AgentPulse. Obviously, that's a little bit of a tailwind in pushing that forward. It's also the reason that we see this demand and this market opportunity, and it's part of the reason we're doubling down and increasing our investment in the second half of the year.

All of that taken together gives us the confidence not only in the growth, but also the reason that we're doubling down on our investment.

Joseph Gallo

Awesome. Thank you very much.

Tianyi Jiang

Thanks, Joe.

Operator

Our next question comes from Jason Adder with William Blair. Please go ahead.

Jason Ader

Yes, thanks. Good afternoon, guys. I was just wondering if you could help us understand how you're positioning versus Agent 365 from Microsoft and just how to think about any potential headwinds from the E7 bundle where Agent 365 is included. Just help us think through that.

Tianyi Jiang

Jason, yes, thanks for the question. We actually mentioned a customer example in the prepared remarks around how a customer selected us. We can work hand-in-hand with Agent 365, but we also go one level deeper, like how we do work with Purview. Purview is really at the content level. We're at the workspace level. Here our delegated administration model, our cross-cloud capabilities, and also agent ROIs and being able to track the cost. All those things, we go beyond what the hyperscale or the self-offer, and more importantly, it's this multi-cloud flavor.

We also know that Agent 365 standalone is about $15 per user. Of course, you have to upgrade to the $99 per user E7 to have it. There are many customers that have mixed license types. We all know not all customers are going to go, even within the organization, everyone goes to E7. There's a lot of opportunity for customers and partners to leverage our capabilities, especially around multi-cloud management at an also affordable rate.

Jason Ader

Got you. Okay, thanks. Could you remind us of the pricing for AgentPulse?

Jim Caci

There's two different flavors. Obviously, in the bundle, it's just part of the overall Control Suite bundle, so it's embedded in that pricing. What we just released in terms of the standalone, we essentially have two different flavors. When you think about the base flavor for AgentPulse, it really is providing visibility and observability to the customer so that they can see what's happening in their environment.

Then the step up from that or the more advanced would allow them to actually take action and govern what's happening in their environment. Two different price points, a base entry-level price to essentially accommodate visibility, and then the actual governance is a second-tier price, both very competitively priced. We think they're aggressive, not only to attract new customers, but also to help our existing customers take that next step. Again, we think that we've priced it right. Early indications are very positive, so we're excited about what we're going to see in the future.

Jason Ader

All right. Thanks, guys. Good luck.

Jim Caci

Thanks, Jason.

Operator

Our next question comes from Rudy Kessinger with DA Davidson. Please go ahead.

Ben Smith

Hey, this is Ben Smith. I'm for Rudy. Thanks for taking the question. Curious on the incremental investments that you're making. Do you see that as making investments to meet the ARR guidance for this year, or is that more intended to drive sustained growth in 2027 and beyond?

Jim Caci

Thanks for the question, and I appreciate the clarification. We broke those investments into two components, really, a technology-driven investment and go-to-market motion. I would suggest that the way we're thinking about it is both of those have more future impact than current quarter or even next quarter. The go-to-market motions are investments that are intended to capitalize on what we're seeing in the market and take advantage of that, but obviously, they won't have an immediate impact. They'll have longer-term impact.

Then the technology ones, we're seeing nice efficiency gains from what we've been doing, particularly in our engineering team, and we want to see that continued transformation not only within the engineering team but beyond. Again, those efficiencies will happen over time, and we'll see those improvements moving forward.

I would think about it, the way the Company's thinking about it, is more of a longer-term impact, and we think about a slight impact on our current operating income results with the intention that this gives us even more confidence of hitting our longer-term operating income targets because of the efficiencies gained and the ability to increase the top line as well.

Ben Smith

Thanks.

Operator

Our next question comes from Erik Suppiger with B. Riley Securities. Please go ahead.

Erik Suppiger

Yes. Two follow-up questions. One, on the pricing for AgentPulse on the standalone, I didn't catch, did you say that you priced it on a per-agent basis, or what is the foundation for that? Then on the operating margin, I'm assuming you're still targeting the 25% to 30% in fiscal '29. Can you just describe what the trajectory for getting there will be? Will it be backend loaded, or what should we be thinking about as you get past fiscal '26 here?

Jim Caci

Great. Thanks, Eric, for the question. I appreciate the clarification on the pricing. Great point. What we've tried to do is make it very easy for our customers, and right now it's being priced on a per-seat or per-user basis as opposed to a per-agent. Some of the feedback we've obviously heard from customers is one of their challenges is even understanding how many agents they have running in their environments. To essentially have certainty of pricing, we went the easiest model possible, which would be the user. Again, that seems to be resonating with customers, so we think that's the right strategy, at least for today.

Erik Suppiger

Just real quick on that user, is that typically an administrator, like a 365 administrator, or who is the typical user that you're selling to there?

Jim Caci

No, think more of the Microsoft licensing model where it would be for the whole enterprise in terms of all users. That would be the…

Erik Suppiger

I got you. Okay. Thank you.

Jim Caci

Which is similar to pricing for other products as well. Then when we think about the operating margins, good question in terms of what we're expecting moving forward, and we haven't changed our long-term targets. As I had mentioned, I think this actually gives us more confidence that we're going to be able to achieve those longer-term targets because of the efficiency we're seeing from some of the investments we're making today. When we think about how that trajectory looks, I don't think it'll be, and we said this right from the start, I don't think it's completely linear.

There will be some ups and downs as we move forward toward that goal. I don't think that changes, but I would expect to see improvements over the years. They just won't be at the same rate. But again, we feel really good with those overall targets. One of the things that, again, we're even more focused on is GAAP profitability. You heard me mention earlier about the expansion that we saw in Q2 as well. When we look at all of that together, we're excited to be able to hit those longer-term targets. I think the investments we're making today make that goal even more easier to hit and give us more confidence to achieve that.

Erik Suppiger

Very good. Thank you.

Tianyi Jiang

Thanks, Eric.

Operator

Our next question comes from Todd Weller with Stephens. Please go ahead.

Todd Weller

Thanks for the question. Could you hit on the resilience business and talk about the demand trends and drivers you're seeing there? Then related to that, how do you see AI impacting, influencing that business, both from a capability's perspective, but also from a growth and opportunity perspective?

Tianyi Jiang

I'll go first. Yes, the resilience side is still growing very robust. Also from AI perspective, the AI risks, right? We recently released the State of AI report where we see that 88% of the companies have some sort of AI security incident in the last 12 months. AI risk is real. Damage is happening at machine speed. This is actually highlighting the need for a very robust resilience capability. We actually include essentially back express and restore express capabilities to restore environments very, very quickly in minutes and also give customers the ability to actually prioritize with even recommendations on prioritizing which workloads, which type of functional areas to restore first, the concept of minimal viable company idea in terms of massive outage.

These things are actually happening live. If you recall the previous earnings, we even talk about how when the conflict in Middle East happened, that really drove up a spike for resilience capabilities because of the need to restore entire production environments in a different hyperscaler cloud very, very quickly. Yes, so AI is actually driving even further need, heightened need for this. This is why we released the new products that we announced at Black Hat. It's leveraging AI capabilities to actually continuously classify and add rich context to your datasets. At the same time, be able to identify prioritization of restore capabilities.

Todd Weller

TJ, just to follow up to that, what are you seeing? Where are we in terms of like AI applications and workloads being backed up by AvePoint Resilience solutions?

Tianyi Jiang

Yes, we actually backup agents now as well. Then, so this is what we call IaaS and PaaS. Much of this infrastructure is running in compute cloud, whether it's Azure, GCP or AWS. We also actively backup those and then restore them to wherever the customer would like, whether it's their own data centers or the same cloud data centers or in a different hyperscaler location for failover capabilities. That demand is there. We do more of that today than ever before.

Todd Weller

Great. Thank you.

Tianyi Jiang

Thank you.

Operator

Our next question comes from Joe Vandrick with Scotiabank. Please go ahead.

Joe Vandrick

Thanks for the question. Maybe one for TJ. I mean, it seems like we're starting to see an acceleration in how quickly large enterprises are adopting AI. We've seen really strong results at Microsoft with Copilot adoption. You're starting to see it flow through numbers for other software companies like Datadog and Snowflake. But I guess I'd love to understand what trends you're seeing in your customer base and if this is ringing true for you guys.

I know roughly half of AvePoint ARR is mid-market and SMB. What does that mean for adoption? Is it taking a little bit longer to show up for these smaller customers than the larger enterprises that you also see? Because you also have those guys as customers. What does that mean for AvePoint?

Tianyi Jiang

Yes. The example we give, an average AgentPulse customer, they discovered they have at least 5,000 agents and then that number grows, doubles every three months. We have customers where we're managing hundreds of thousands of agents for them. That's the number of agents now far exceeding the number of employees. Of course, most of these agents are very lightweight, very simple, almost workflow type of agents and not yet full-on virtual employee, non-human identity type of robust agents that people spoke of. That's where we see.

Of course, Microsoft's Office Copilot adoption has been very robust. It's gone to now 30 million user seats and then GitHub Copilot is now 50 million user seats. That's not just enterprise, it's also medium-sized businesses and SMBs. In fact, in Q2, we added a record number of SMB new logos, as well as a record number of 250,000 to 500,000 ARR cohorts. We do see success across all the segments. I don't think it's true that SMBs are not deploying AI faster than enterprise. It's this ability to deploy and launch agents that's very different this year versus last year. Everyone's focused on how many Office Copilot people are deploying. Actually, it's very, very targeted deployment of AI.

Of course, last year is also token maxing. This year, it's very, very focused on cost control and making sure that there's intentionality in terms of outcome-based AI deployment. This is why the AI trusting is so important now.

Joe Vandrick

Very helpful. Thank you. Maybe just one follow-up. You guys continue to improve and add functionality to the Elements platform. Can you talk more about the traction there? Ultimately, how big can this MSP-focused business be for AvePoint?

Tianyi Jiang

That's a great question. Right now, MSP is almost analogous to SMB to us. SMB is roughly about 20% of our recurring. We are adding new capabilities to our Elements platform, even include endpoint management, license management, SaaS license management, in addition to, of course, agents, AI agent cost management. That's our fastest-growing segment, as we mentioned a number of times before, and it continues to be.

We think the SMB's market segment could be as large as 30% to 40% in the next few years. We still have ways to go. In terms of the overall market size, it's massive. We cited that we have about 6,000 total partners. I think in the MSP space, we have about 2,000 total partners. But the ecosystem, even just in North America, is about 20,000 MSP partners.

There's still a lot of green field for us to go after.

Joe Vandrick

Thank you.

Tianyi Jiang

Thanks, Joe.

Operator

Our next question comes from Nehal Chokshi with Northland Capital Markets. Please go ahead.

Nehal Chokshi

Yes, thank you. Congrats on another good quarter. As always, great clarity on the guidance, including Slide 25 here that bridges the prior guidance and updated guidance. It shows that; indeed, it's a raise here, excluding the FX and tax. Just to be clear, though, does guidance change? Is that inclusive of Q2 outperformance on the ARR side?

Jim Caci

Well, again, we don't necessarily guide quarterly on ARR. When you say outperformance, we technically guide for the full year on ARR. There's not necessarily a beat for the individual quarter. We were very pleased with the performance of ARR in the quarter. That is reflected in our overall change to the guidance in total, where we feel really confident based on the performance in Q2 and what we see for the rest of the year to raise our guidance by a $1 million. But I wouldn't say it's specifically just about Q2, though.

Nehal, thank you for recognizing the slide and the walk that we try and put together. It can be complicated. We understand that. We appreciate the fact that you recognize and see that. Thanks for mentioning that.

Nehal Chokshi

Absolutely. TJ, there appears to be new ecosystems that have been born, specifically Anthropic and OpenAI. Do you agree with that assertion? If so, what are you guys doing to develop products specific to these new ecosystems and go-to-market mechanisms for these new ecosystems?

Tianyi Jiang

That's a great question. We think those are commercial available large language model ecosystems, and they're increasingly in the age of expensive AI tokens. We see more and more customers that are using different providers and different types of models, both private models as well as open source models running their own infrastructure to be much more cost-conscious and outcome driven. Therefore, in leveraging these models, there needs to be a certain agnostic nature to it to be able to route different types of workloads to different models.

Fundamentally, though, everything these models ground on, especially for the enterprise, are the data. The foundational data is what we care about. We curate that data. We actually add context. We do this kinetic classification and lifecycle management and this recertification of that. Ultimately, whichever provider and whichever large language model that the customer used to refine on will have a better outcome.

In that way, we are model provider agnostic. Microsoft also say that as a hyperscaler, they're the one that's most neutral to this type of model. But having said that, Anthropic do have now their own B2B ecosystem. There is another area that we do work to support. But today, like we mentioned earlier, we do support backing up and restore of agents, basically VMs and servers and all the data that those agents ground on, including memories, models and skills. Those cached data repository that agents will use to be productive.

Nehal Chokshi

Just curious, it sounds like—could you give your perspective as far as the enterprises that you're working with? What's their distribution of agents across these various LLM ecosystems and open source versus closed source versus hyperscaler backed?

Tianyi Jiang

That's actually very hard. It's very dynamic, honestly, because as I mentioned last year was token maxing everyone, just measure simplistically how much token has been consumed as a kind of a proxy for AI, intelligent use of AI. This year, a lot more cost consciousness towards this. I know even ourselves included, no CFOs, Jim included, want to be surprised with token consumption over budget in a very quick order. More and more enterprises are actually becoming smarter, wise up to the fact that they need to be much more diligent in how to use AI and how to do this in an economic way. This whole space is changing very quickly.

Nehal, I don't think it's useful to say this is a snapshot. I feel like this dynamic's changing by the quarter. Thinking Machine now has an open source model, an American-made open source model that a lot of people are now using as alternatives. This is a very dynamic space. It's very hard to get concrete data on that.

Nehal Chokshi

Thank you very much for that perspective.

Tianyi Jiang

Thanks, Nehal.

Operator

Our next question comes from Derrick Wood with TD Cowen. Please go ahead.

Colin

Great, thanks. This is Colin for Derrick. TJ, this is a follow-up to an earlier question, but with Mythos and all these new vulnerability concerns, are you guys seeing like incremental demand and pull forward or faster buying cycles from customers?

Tianyi Jiang

Yes, that's a great question. This is what we're seeing in terms of this whole AI resilience. Smart recovery and be able to detect damages more in real time. The phrasing is machine speed. This is where the demand for resilience is coming in. Damages are being done now at machine speed. Recovery has to be done at machine speed. It's absolutely driving the demand for resilience as well as, of course, the governance overall, this AI trust layer. You will hear more, again, as I mentioned, product coming from AvePoint in the next months and quarters to really lay out the overall robust offering around the AI trust layer.

But now with security completely disrupted by attackers, that's actually not humans anymore. It's agents, fleets of agents, this whole AI trust, AI, recovery capabilities is ever more important.

Colin

Great. Thank you.

Tianyi Jiang

Thanks, Colin.

Operator

Our next question comes from Kirk Materne with Evercore. Please go ahead.

Vinod

Hi, this is Vinod on for Kirk. We realize this is a small part of the business right now, but could you maybe talk about your Google Cloud related business and the growth trends there? Thank you.

Tianyi Jiang

Yes, we're pleased with Google growth rates. We have seen really good success in North America, in Japan, now starting to see in EMEA as well. We actually articulated this earlier as also Google is actually making very good inroads. I personally was at their Google Next conference a couple of months ago. They're making very good inroads into enterprise. Also, our community, there's a lot of enterprise leaders that we know very well for decades plus are now leading teams there.

The thing is different tech stack, but same problems that they solve. We help customers move data between different hyperscaler data states. The reality is the world is multi-cloud. We even have customers to have both Google and Microsoft Stack running in the cloud. That side is growing well. We're pleased to see the progress. We're making investment also to make sure that we have this go-to-market success globally.

Vinod

Great, thanks. Then one more for me. The environment around us is changing very quickly and rapidly with Mythos, et cetera. Looking back to the end of last year, is anything really surprised you or stood out or been very different than your initial expectations around the topic of shadow AI coming into the year?

Tianyi Jiang

Yes, things are moving very fast. I think everyone's—every CEO I talk to, there are two things that they very much focus on here on fire problem. One is the risk. Shadow AI and agent sprawl. Of course, around cyber, how AI agents can break in at a much more fast and furious than human actors can do that. The second one is cost. AI consumption costs are going through the roof. I know many of our customers talk about, their budget kind of blown with the token consumption. That's something that everyone increasingly needs to get a handle around. These two things, risk and cost, is what customers are really very focused on.

But the fact remains, this AI technology is highly disruptive. It's here. It's real. Companies have to use it, but they have to use it in a trusted way so that they don't also at the same time scale risk. They need to control risks and control the cost at the same time. I think nothing really surprises us per se, but it just, it seems like these pressure, it's even higher this year versus last year. The pressure to not only deploy AI, but also securely and cost effectively.

Vinod

Thank you.

Operator

This concludes our question and answer session. I would like to turn the conference back over to TJ Jiang for closing remarks.

Tianyi Jiang

Thank you for joining us today. I'll close by sharing where our confidence comes from, because I'm coming off a full round of quarterly business reviews with our teams across Americas, EMEA, and APAC. The message from every one of those conversations with our customers, partners, and leaders running each of our regions was remarkably consistent. The disruption created by agentic AI is real and accelerating and organizations everywhere are turning to AvePoint to bring the visibility, governance and above all, the trust this new era demands.

We are executing well on every front, and our business is performing with greater breadth and consistency than ever. That is exactly why we're so bullish on our ability to capitalize on this generational opportunity as the unifying trust layer for AI and why our conviction in the past to our $1 billion ARR target has never been stronger. Thank you again for joining us today and we look forward to speaking with you more this quarter.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.