Q3 2024 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Brett Knoblauch, Cantor Fitzgerald
- Jason Ader, William Blair & Co., LLC
- Kirk Materne, Evercore ISI Institutional Equities
- Nehal Chokshi, Northland Securities, Inc

Presentation

Operator

Good day, and welcome to the AvePoint Inc Q3 2024 Earnings 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, Investor Relations. Please go ahead.

Jamie Arestia {BIO 19836110 <GO>}

Thank you, Operator. Good afternoon and welcome to AvePoint's third quarter 2024 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 presented in this presentation as we believe they provide investors with a 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 the most directly comparable GAAP financial measures is available in our third quarter 2024 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 {BIO 20151191 <GO>}

Thank you, Jamie, and thank you to everyone joining us on the call today. The third quarter was an exceptional one for AvePoint as we built on the momentum and strength of the first half of the year, outperforming our expectations for the seventh consecutive quarter. We also demonstrated meaningful improvement on a number of key financial and operational metrics, which Jim will discuss in more detail.

Our results, again, reflect our steady focus on profitable growth and the ongoing demand for the AvePoint Confidence Platform, which is designed to enhance data security, governance, and resilience. While these customer needs are not new, they have never been as high-profile or as widespread as they are today. Companies worldwide increasingly are turning to AvePoint as they recognize the importance of high-quality data and the criticality of a robust data management strategy.

AvePoint's unmatched ability to establish these strategies for customers for more than 20 years makes us a perfect fit for this moment, where companies are rethinking data security in the age of generative AI and prioritizing platform solutions that deliver automated value across their multi-cloud environments. These dynamics position AvePoint exceptionally well to capitalize on the tremendous market opportunity ahead of us. And provide us the confidence to again raise our expectations for the year.

Today, I'll talk about what we are seeing in the market and some key customer wins in the quarter. I'll then turn it over to Jim to cover our financial performance and updated financial guidance. I recently attended the Microsoft SMC APAC conference, which brings together the top Microsoft partners in the region. A key topic was maximizing the value of Microsoft 365 Copilot. In every conversation, whether with members of Microsoft's Executive team or other top partners, it was clear that data security and data quality are key to delivering the potential that Gen AI solutions like Copilot offers.

At the same time, the concept of data security is rapidly evolving in the age of AI. It goes beyond traditional security measures, extending to comprehensive data protection, quality data management, robust data governance, and of course, data security. Traditional data security has focused on protecting the parameter, but that approach, while still important, is ultimately insufficient today. With the rise of Gen AI, businesses must shift to data-centric security, which focuses on protecting the data itself wherever it resides.

What do we mean by this? Today, companies require a centralized data security posture, uniform approach to data governance, automated business processes, proactive and agile risk response, and the ability to do all these things at scale. Essential to this approach is the integration of strong data governance and data protection practices. Effective governance ensures that data is properly managed, accessible, and compliant with regulations, while data protection measures, like encryption and access controls, secure sensitive information. Without these practices, the true value of generative AI simply cannot be realized.

Gartner found that at least 30% of generative AI projects will be abandoned after proof of concepts by the end of 2025 due to poor data quality and inadequate risk controls. And by 2027, 60% of organizations will fail to realize the anticipated value of their AI use cases due to incohesive data governance frameworks. Seamlessly addressing these widespread problems is precisely what the AvePoint Confidence Platform solves. We enable security, business, and IT leaders to automate data governance for unstructured data, including the right security controls, business process automation, monitoring, and analytics to simplify data security and successfully implement generative AI.

Our Platform Approach, which offers a one-stop solution to the most universal data management challenges, continues to resonate with customers and prospects and led to strong new local acquisition and significant customer expansions in the third quarter. I want to highlight a few of these wins, which encapsulate organizations of all sizes and verticals from all around the world. Financial institutions deal with vast amounts of sensitive unstructured data and the integration of AI capabilities for fraud detection, customer service automation, and risk assessments inherently introduces risks like data privacy breaches, unauthorized access, and bias in AI algorithms.

This is the exact use case leading to a significant customer expansion with a prominent global online payment processing company. Already a customer of our resilient suite, the company required enhanced data security and governance measures before rolling out Microsoft 365 Copilot to their 40,000 users. They purchased three control suite products to provide a robust and scalable framework that will drive the success of their AI transformation.

We also welcomed a Canada-based insurance company with 35,000 users as a new customer in the quarter, which required a robust solution to improve workspace governance attestation across its environment. They purchased five products across our control suite to enable comprehensive data access governance, real-time monitoring of their data security posture, and automation of their compliance reporting.

Switching to the healthcare industry, we're safeguarding patient data and complying with strict regulations is non-negotiable. To do so, companies must have robust automated data governance and resilient protection plans in place to uphold their organizational reputation and operational viability. We welcomed a U.S.-based healthcare provider with 35,000 users in the quarter, which purchased our entire control suite of products to address risks related to their sensitive data.

With that point, they can now implement a scalable framework to automate data governance, uncover actionable risk insights, and enable proactive policy enforcement, reducing data security risk and optimizing their operations. Complying with strict regulations is equally critical in the public sector where inadequate data management can result not only in breaches of sensitive citizen information and operational inefficiencies, but also undermine public trust and disrupt the delivery of essential services.

Public sector institutions represent our largest overall vertical, and the team had another strong quarter signing new logos and expanding existing customers deployments. A major Japanese municipal government with more than 20,000 users implemented the entire control suite in the third quarter, citing our ability to automatically govern data across their large and complex digital environment and support their overall data management goals.

Sutherland[ph] was a key U.S. Agency responsible for overseeing judiciary operations, which faced significant data protection challenges. With more than 30,000 users, their existing manual backup process proved cumbersome and unreliable. And the recent loss of critical case information highlighted the need for a more robust solution, especially with increasing ransomware threats. They chose AvePoint's FedRAMP-certified Secure Data Resilience product to implement an automated, reliable backup system that ensured data integrity and compliance, in turn, positioning them to better protect critical information and respond to data loss and external threats.

We were also pleased that in the third quarter, a U.S. Federal agency responsible for approximately 2% of our total ARR meaningfully expanded their AvePoint commitment to another 20,000 users. Today, they rely on our control and resilience suites to comply with the stringent regulatory requirements for their 115,000 users. As the AvePoint Confidence Platform enables them to address complex record management needs, identify and secure sensitive data, and gain control over the workspace provisioning and information lifecycle management. The other vertical I would like to quickly highlight is higher education.

In the third quarter, we had an eight-figure deal in APAC region with a prominent institution to replace their on-premises system with a modern centralized enterprise student management system with a MaivenPoint platform. This would strengthen our role as a key provider of innovative and mission-critical systems that meet the evolving needs of the higher education sector. While it's clear our solutions position organizations to deliver meaningful business outcomes in the future, we also can show them a substantial return on their investments right away.

A great example of this is a leading global design and engineering consultancy based in the UK, which was utilizing a staggering one petabyte of data. This overuse was not only costly, but also unsustainable, and they embarked on a rigorous selection process evaluating solutions from six different vendors. They ultimately choose the secure data protection and information management solutions from our resilient suite, enabling them to quickly reduce their backup costs as well as archive and delete their redundant and obsolete data.

This will immediately translate to substantial cost savings and a more streamlined data management process. And we're already discussing additional products like tyGraph to further enhance their data management capabilities. This partnership exemplifies how the breadth of our platform allows us to address multiple complex data challenges while delivering both immediate and long-term value.

To conclude, AvePoint is uniquely positioned to address the critical challenges of data security, governance, and resilience. Our platform approach and our ongoing innovation differentiates us from the point tools in the market and ensures that our clients can drive transformative outcomes while effectively navigating a complex multi-SaaS digital landscape. I am extremely proud of the team's accomplishments this quarter, and we're excited for a strong close to the year.

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

Jim Caci {BIO 18051667 <GO>}

Thank you, TJ. And thank you to everyone for joining this afternoon as we report another quarter of strong results. This strength is evident not only as we review our performance against our guided metrics of revenue and operating income, but also as we go a level deeper and look at our top-line results by geography, customer segment, and vertical, where the team's broad-based execution translated into record net new ARR of nearly $19 million in the quarter.

We achieved this while closely managing every P&L line and driving significant year-over-year operating leverage, delivering record quarterly non-GAAP operating income of $17.8 million. And in turn, our improved profitability position has led to record cash flow generation as year-to-date we have generated $56.1 million in operating cash flow, and $53.8 million in free cash flow.

I'll discuss these items in more detail shortly, but suffice to say, we are investing in profitable growth, executing on our strategic priorities, and strengthening our brand, all of which leave us well-positioned to continue delivering value to AvePoint shareholders while we progress toward our Rule of 40 and GAAP profitability targets in 2025.

With that, let's turn to our results. For the third quarter ended September 30th, total revenues were $88.8 million, representing year-over-year growth of 22%, an acceleration from the second quarter and above the high end of our guidance. SaaS continues to be the driver of our overall business. And in the third quarter, SaaS revenue was $60.9 million, growing 45% year-over-year, the highest growth rate we have delivered in 11 quarters. We are also pleased that on a sequential basis, SaaS revenue grew 13%, the highest rate we have delivered as a public company. And in Q3, SaaS comprised 69% of total revenues compared to 58% a year ago.

Moving to our other revenue lines, term license and support was $14.1 million, continuing its expected decline, but representing a higher percentage of total revenues than in the first two quarters, given the typically higher demand for term license that we see from our North America public sector customers in Q3. Maintenance revenue, which to remind you, is tied to our legacy perpetual licenses, also declined as expected year-over-year, both in dollars and as a percentage of revenues, and represented 3% of total Q3 revenues.

Lastly, services revenue was $10.8 million, and represented 12% of total Q3 revenues, and continues to trend closer to our longer term target of 10%. And because services is our only non-recurring revenue stream, our recurring revenue mix in the third quarter was 88%, representing another record for the business.

Switching now to our regional performance, where the balance of our geographic footprint is one of the many things that makes AvePoint unique within enterprise software. Today, approximately 40% of our revenues come from North America, 30% from EMEA, and 30% from APAC. In the third quarter, we saw strong performance across the board, driven by our SaaS business, which grew above 40% in all three regions. In North America, SaaS revenues grew 46% year-over-year, and represented 70% of total North America revenues, which in turn grew 19% year-over-year. In EMEA, SaaS revenues grew 41% year-over-year, and represented 84% of total EMEA revenues, which in turn grew 21% year-over-year.

And in APAC, SaaS revenues grew 50% year-over-year, and represented 50% of total APAC revenues, which in turn grew 29% year-over-year. The same broad-based strength is apparent when looking at our year-over-year growth in regional ARR, a metric we began disclosing this year to provide a better view of the underlying momentum of the business everywhere we operate.

In Q3, North America ARR grew 20%, EMEA ARR grew 25%, and APAC ARR grew 27%, as each region was a strong contributor to the 23% consolidated ARR growth we reported. Continuing now with total ARR and other key metrics we assess on a quarterly basis. As of September 30th, total ARR surpassed the $300 million mark, ending the quarter at $308.9 million. As mentioned, this represented year-over-year growth of 23%. As a result, net new ARR in Q3 was a record $18.8 million and grew 31% year-over-year, the highest organic growth rate we have delivered as a public company.

Additionally, we ended Q3 with 629 customers with ARR of over $100,000, a 21% increase from the prior year, and a net addition of 35 such customers from Q2, which represented the most we have ever added in a single quarter. As of the end of Q3, 53% of total ARR came through the channel, compared to 50% a year ago. And for Q3 specifically, 68% of our incremental ARR came through the channel, compared to 61% for Q2 of 2024, and 72% for Q3 of 2023.

Turning now to our customer retention rates. Adjusted for the impact of FX, our trailing 12-month gross retention rate for the third quarter increased to 88%. And we are pleased to see this key metric improved to the highest AvePoint has reported to date. At the same time, our FX-adjusted net retention rate for the third quarter was 110%, an improvement from the 108% we delivered a year ago and in line with Q2. On a reported basis, Q3 GRR was 87%, compared to 85% in Q3 of 2023, and a one-point improvement from the prior quarter. Q3 reported NRR was 109%, compared to 107% in Q3 of 2023, and in line with Q2.

Turning back to the income statement, gross profit for Q3 was $68.4 million, representing a gross margin of 77%, compared to 73.7% in Q3 of 2023, and to 76.2% in Q2 of 2024. Similar to the first half of the year, the improvement in our gross margin is primarily the result of our product mix in Q3 as we again had more SaaS revenue and less services revenue as a percentage of our overall revenue. In addition, we saw improved SaaS margins this quarter compared to last year.

Moving down the income statement, operating expenses for Q3 totaled $50.5 million or 57% of revenues compared to $44.3 million or 61% of revenues a year ago. As a result, Q3 operating income was $17.8 million or an operating margin of 20.1%, a year-over-year improvement of more than 720 basis points. Q3 operating income was well ahead of our guidance and similar to last quarter, the outperformance was primarily driven by two factors. First, the meaningful revenue beat, most of which flowed to the bottom line, and second, improved sales efficiency and prudent expense management across the business.

These areas of focus were most pronounced at the sales and marketing line, which represented 31% of Q3 revenues and when looking at our total operating expenses, which as mentioned was 57% of Q3 revenues. Both of these percentages were the healthiest we have reported as a public company. Taken together, our ongoing commitment to profitable growth resulted in another step on our path to full-year GAAP profitability and to this point we are pleased to have achieved GAAP profitability in the third quarter as well as for the first nine months of 2024 with cumulative GAAP operating income of $2.3 million. This compares to a GAAP operating loss of $16.2 million in the first nine months of 2023.

Turning to the balance sheet and statement of cash flows, we ended the third quarter with $250 million in cash and short-term investments and as mentioned, for the nine months ended September 30th, cash generated from operations was $56.1 million, while free cash flow was $53.8 million. This compares to cash generated from operations of $13.3 million and free cash flow of $11.8 million in the first nine months of 2023. During the three months ended September 30th, we repurchased 219,000 shares for a total cost of approximately $2.6 million.

I would now like to turn to our financial outlook, where for the full-year we are pleased to again raise our expectations for total ARR, total revenues, and non-GAAP operating income. For the fourth quarter, we expect total revenues of $86.5 million to $88.5 million, or approximately 17% year-over-year growth at the midpoint. We expect non-GAAP operating income of $12.6 million to $13.6 million. And for the full year, we now expect total ARR of $324.9 million to $326.9 million, or approximately 23% year-over-year growth at the midpoint. This implies net new ARR for the year of $61.4 million, or year-over-year growth of 23% at the midpoint. We now expect total revenues of $327.8 million to $329.8 million, or approximately 21% year-over-year growth at the midpoint.

And given these higher top-line expectations, again coupled with our outperformance on profitability this quarter, we now expect full-year non-GAAP operating income of $45.8 million to $46.8 million, or an operating margin of 14% at the midpoint, which represents a year-over-year expansion of 590 basis points. Lastly, on a rule of 40 basis, which for AvePoint is the sum of ARR growth and non-GAAP operating margin, our updated guidance today reflects a 37. This compares to the 29 that we initially guided for the year in February, to the 31 we guided to in May, and to the 33 that we guided to in August. In summary, we are proud of our Q3 results, and the team remains laser-focused on profitable growth and continued execution as we deliver value to organizations around the world.

Thanks for joining us today, and with that, we would be happy to take your questions. Operator?

Questions And Answers

Operator

(Question And Answer)

Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions) At this time, we will pause momentarily to assemble the roster. And the first question comes from Jason Ader with William Blair.

Q - Jason Ader {BIO 1878505 <GO>}

Yes, thank you. Hey, good afternoon, guys. First question, I guess, is if you would be kind enough to provide any relative growth rates across the different suites that you sell, that would be helpful.

A - Jim Caci {BIO 18051667 <GO>}

Hey, Jason, it's Jim Caci. Thanks for the question. So I know that's something that we're providing on an annual basis. I would say that for at least this point, at this point in the year, we would expect to see the suites relatively similar to last year in terms of comparison. We are seeing additionally, and TJ even mentioned it in the script, much more focus around control from our customers. So we would expect to see improvement there. But overall, similar to what we've seen in the past with, again, a little bit more focus on control.

Q - Jason Ader {BIO 1878505 <GO>}

Okay. Excellent. And then quick follow-up maybe for you, TJ, just as we think about the net new ARR performance and the growth area of year, which was well above the total ARR growth. How would you kind of summarize what's going well for you guys right now that's driving this net new ARR performance?

A - Tianyi Jiang {BIO 20151191 <GO>}

Hi, Jason. Thank you for your question. Yes, we are very excited to see the net new incremental ARR growth. We have multiple strong segments. Historically, we're very strong in enterprise. We remain so. And as discussed in the past calls, our strongest, highest growth segmentation come from the SMB segment with our very laser focus on managed service providers as a segmentation. So that continued to drive outsized net new logo acquisitions, as well as net new ARR. And just go back to your previous point that Jim answered. So governance and security really go hand in hand together. And governance is really our control suite. And security is really exemplified by the resilience suite. So we see a lot more of our platform strength and play that's helping us really win in the market.

Q - Jason Ader {BIO 1878505 <GO>}

All right. 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. And congrats on the great quarter. It seems like everything is hitting on all cylinders. TJ, I was wondering if you could maybe point to one or two things that you think is really allowing you guys to deliver the growth you're getting across all regions. It seems like all customer sizes. Is there any one or two things maybe the proliferation of AI that you could point to? Or how should we think about the continued strength there?

A - Tianyi Jiang {BIO 20151191 <GO>}

Hi, Brett. Yes, that's a good question. We really do see consistent growth, high growth across all of our major three geographies in North America, EMEA and APAC. What's driving a lot of growth continue to be what we discussed in the previous quarters of this need for data governance and control. And, of course, around security and resiliency. So these things are continuing to be very, very strong growth vectors for us.

And lastly, we also have our data migration, integration play in modernization that continue to be a massive door opener for us. We see a lot more uptake in Microsoft, Gen AI capabilities. So that led to migration opportunities as well from other clouds. So that would never end the migration path between multi-cloud environments, between multi-hyperscalers. And even within same cloud platforms, there's always divestitures, M&As, and re-consolidation of tenants and split up tenants. So that continued to be the tip of the spear for us. So yes, we're pleased to see all three major product suites and function areas on our SaaS competence platform to grow very strongly across our regions.

Q - Brett Knoblauch {BIO 20597300 <GO>}

Perfect, thanks. And Jim, a question for you on the gross retention. I think it was the first time we saw that tick up since you guys first started disclosing it a little bit ways back. Any thing you can point to that kind of drove that tick up? And is that something we should expect to continue to improve over the immediate term? Or I guess your 90% target there over what timeframe should we expect that?

A - Jim Caci {BIO 18051667 <GO>}

Yes, great question. So you're right, that 90% target is, I would say at this point, probably a medium term. So we're looking at the next couple of years of trying to get to that 90%. So we were definitely encouraged to see us tick up here 1% to get to 88%. I think we're seeing good performance really from each region. Strong performance in Q3 in our public sector, which continues to outperform kind of the consolidated results both in GRR and NRR. So that was a good contributor.

We've also made some changes this year in terms of how we think about the long tail, kind of that ARR base that doesn't receive dedicated CS is maybe a little bit lower in terms of ARR balance. But we've done a bunch of things around pulled CS really focusing on how we can service that team and that really customer base better. And we've seen already the first nine months of this year, we've seen improvement, and we've seen some meaningful improvement in terms of that GRR base. So that was definitely a contributor. And we're again, we're investing heavily there. So we would expect to see that continue. So I think we've made good progress toward that 90%. And we're going to continue to work toward that and hopefully in the next couple of years, we get there.

Q - Brett Knoblauch {BIO 20597300 <GO>}

Perfect, thanks. I really appreciate it. And congrats again on the quarter.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thanks, Brett.

A - Jim Caci {BIO 18051667 <GO>}

Thanks, Brett.

Operator

Thank you. And the next question comes from Nehal Chokshi with Northland Capital Markets.

Q - Nehal Chokshi {BIO 16526682 <GO>}

Yes. Thank you. Congrats on the great results. Hey, TJ, so you've talked about how Gen AI transforms security needs to be data security centric, which I believe is more focused on your resilience suite. And I get that you say that they are the resiliency and control suite work hand in hand with respect to AI. But how does Gen AI transform privilege access from user centric to data centric, which would be more focused around your control suite?

A - Tianyi Jiang {BIO 20151191 <GO>}

Hey, Nehal, great question. So there's actually a lot of access control and privilege access flavors when it comes to specifically Microsoft 365 Copilot. So because, that's actually it's very much tied to the Office graph. So the access of particular assets in the cloud and what kind of assets you have, it's very important. And that's what drives the Copilot recommendations to a particular user.

So we've seen very large, obviously, experimentations, but also now increasingly a few large enterprise wide deployments of Microsoft 365 Copilot on the premises of deploying our control suite. So we actually announced this in the previous earning as well with a major global financial institution. And in this quarter, we continue to see that with a major customer take up. So it does go together both from a permission management, lifecycle governance, as well as security in the resilience side. So they do really it's not just the actual data itself, the quality control, essentially maintaining a high quality data state, but also the access rights management of that too.

Q - Nehal Chokshi {BIO 16526682 <GO>}

Okay. And then thanks. Thanks, TJ. Jim, did you give the what was the FX impact on the reported ARR?

A - Jim Caci {BIO 18051667 <GO>}

The FX impact? No, we didn't disclose that, but it's about 1%. The ARR would have been slightly higher by about 1%.

Q - Nehal Chokshi {BIO 16526682 <GO>}

Great. Thank you.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thanks, Nehal.

A - Jim Caci {BIO 18051667 <GO>}

Great. Thanks, Nehal.

Operator

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

Q - Kirk Materne {BIO 5771115 <GO>}

Yes. Thanks very much and congrats on the results. TJ, I don't know if you would parse this out, but I was curious, how much do you think the acceleration is sort of you all getting reprioritized higher in the IT spending budget versus budgets just getting a little bit more more unlocked. I'm sure there's a little bit of perhaps both going on, but I was just kind of curious how much of this is really about your products getting pulled faster to the top of the spending list versus sort of a little bit of a macro unlock potentially?

A - Tianyi Jiang {BIO 20151191 <GO>}

Yes, Kirk, that's a great question. There is, you're definitely right. There's definitely a little bit of both. Initially, when you talk about AI experimentations, a lot of firms actually using a separate bucket of budget outside of traditional IT spend to do the experimentation. And once that happens to the extent that the firm decided to do a firm wide rollout, especially around a (inaudible) Copilot that's tied to their Office 365, Microsoft Office Cloud spend, then it actually primarily goes into a primary bucket.

So it's happening on both sides of the house. It does highlight the need for the importance of governance and control and lifecycle management, something that traditionally only regulated industry, enterprises and government care a lot about, but also everybody cares about it because as we know, your AI is only as good as the quality of your data. So that's definitely raising the priority for all the companies that want to deploy AI to be mindful of their data quality and data state. We actually cited a number of statistics from Gartner's and others to say the quality of the AI experimentation and success rates that folks are seeing are really directly tied to their overall data management posture. So this is definitely raising the awareness across industries.

Q - Kirk Materne {BIO 5771115 <GO>}

Okay. And Jim, just a quick one for you. The implied guide for, or just the guide for fourth quarter operating margins, is that sort of a baseline to think about as we think about next year, just in terms of how you want to start the year? I wasn't sure if there's any, obviously revenue would be dropped down this quarter. So the guide's lower for next quarter. Just how should we think about sort of incremental expenses coming into next quarter and perhaps sort of how we should think about to start counter '25, knowing you're not giving official guidance?

A - Jim Caci {BIO 18051667 <GO>}

Yes, great point. Yes, we'll provide the guidance for next year, probably in February, but it's a good point. We definitely are guiding lower for operating income in Q4. I don't know if I'd read a ton into that in terms of the expectation moving forward. I think if you look historically, Q4 for us has been a higher spend quarter, and that's a combination really of how we budget and how some of our, what we refer to as programmatic spend.

We definitely have more marketing spend in Q4 and some other initiatives. It's just not necessarily linear throughout the year. So there's definitely some ebbs and flows and Q4 historically has been a higher spend quarter, and that's going to continue this year. So that's really a function. We also mentioned that we had about a million dollars of spend moved from Q3 into Q4. So that's also a contributing factor.

Q - Kirk Materne {BIO 5771115 <GO>}

Thank you.

A - Jim Caci {BIO 18051667 <GO>}

Thanks, Kirk.

Operator

Thank you. And the next question comes from Derrick Wood with TD Cowen.

Q - Analyst

Great. Thanks, guys. This is Cole on for Derrick. Great quarter. TJ, one for you. There's been a lot of buzz around AI agents the past couple of months. How do you think these are going to shape demand for control suite going forward? Do you see adoption of agents as kind of this incremental driver on top of Copilot? I'd love to get more color on that.

A - Tianyi Jiang {BIO 20151191 <GO>}

Yes, that's a great question. Agents will continue to evolve. It's still in very, very early stages. If you can't get a good quality output from your current AI deployments, given poor data, deploying agents would just make it even worse because there's so much more automation introduced. I would say that what this actually new development and new areas and trending, it's very exciting for us as overall a B2B SaaS provider in that I really think in the next three to five years, fundamentally, the way software are being deployed, not only just developed, now everyone is using GitHub, Copilot, those type of AI-accelerated dev tools, it's going to change with agents introduction.

So, the way software is actually going to be deployed out there will change drastically in the next few years. But right now, we're still in very early endings of agents. And again, it points to if you want to introduce more automation, intelligent automation, you need to get a core and foundation right. This is why we're becoming more mission critical with that whole data estate management and quality management.

Q - Analyst

Great. Really helpful. And then, Jim, maybe one for you. Good margin on performance. You called out in the prepared remarks a couple of points. I just want to dig in on the improved sales efficiency. Is that just kind of a natural step as reps get more ramped and get more productive? Are there any kind of specific initiatives that are driving this? Thanks.

A - Jim Caci {BIO 18051667 <GO>}

Yes, no, great question. And I think it's a little bit of everything you just said. We definitely are seeing better productivity from our reps. I think we pointed that out in the prior two quarters as well. We've seen that in terms of rep productivity of our longer term reps, but also our newer reps ramping faster and getting the first sale faster. So, that's definitely been a factor. And then I think it's also the continued maturing of our channel strategy. We pointed out, obviously, more and more business coming through the channel. And I think for us, that's a much more efficient play as well. And I think you're seeing all of that kind of play into our progress.

Q - Analyst

Great, thanks guys. Congrats again.

A - Jim Caci {BIO 18051667 <GO>}

Thank you.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thank you.

Operator

Thank you. And this concludes our question and answer session. I would like to turn the conference back over to TJ Jiang for any closing comments.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thank you for joining us today. Our strong third quarter results underscore our ability to help customers and partners achieve AI driven transformation with comprehensive and scalable data management and governance solutions. Our platform approach and ongoing innovation uniquely positioned AvePoint to tackle the critical challenges of data security, governance and resilience in today's complex multi SaaS digital landscape.

In meeting with our management teams, customers and partners worldwide over the last several weeks, I'm confident we have the right market position, technology and people to close 2024 strong and seize the massive opportunities ahead of us. We look forward to speaking with you more this quarter. Thank you.

Operator

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