

Q3 2025 Earnings Call

Company Participants

- James Arestia, Vice President, Investor Relations
- Jim Caci, Chief Financial Officer
- Tianyi Jiang (TJ), Chief Executive Officer

Other Participants

- Erik Suppiger, Analyst, B. Riley Securities
- Jared Jungjohann, Analyst, TD Cowen
- Joe Vandrick, Analyst, Scotiabank
- Joel Omino, Analyst, Citi
- Joseph Gallo, Analyst, Jefferies
- Kirk Materne, Analyst, Evercore ISI
- Nehal Chokshi, Analyst, Northland Securities, Inc
- Rudy Kessinger, Analyst, D.A. Davidson
- Shrenik Kothari, Analyst, Robert W. Baird

Presentation

Operator

Good afternoon, and welcome to the AvePoint, Inc. Third Quarter 2025 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.

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

James Arestia {BIO 19836110 <GO>}

Thank you. Operator. Good afternoon, and welcome to AvePoint's Third Quarter 2025 Earnings Call. With me on the call this afternoon is Dr. TJ Jiang, Chief Executive; 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 US 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 US GAAP. A reconciliation of these measures to the most directly comparable GAAP financial measures is available in our third quarter 2025

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 (TJ)

Thank you, Jamie, and thank you to everyone joining us on the call today as we recap our third quarter earnings. The team's focus and execution drove another strong set of results, enabling AvePoint to once again outperform our guidance for both revenues and non-GAAP operating income. It is clear that our differentiated platform-driven approach to governing and securing critical enterprise data continues to resonate with customers, especially in today's dynamic digital landscape.

Today I want to talk about the evolving market landscape and how AvePoint is driving value for customers and partners, especially through our approach to governing agentic AI. I'll also recap a few fantastic customer wins from the quarter and then turn it over to Jim to cover our financial performance.

So let's jump in. At AvePoint, we believe that AI is a force for great productivity and innovation, but we also know that it introduces risk related to data exposure, compliance gaps, and lack of trust, and these apply to every company regardless of industry, location, or size.

The addition of agentic AI systems that can automatically execute workflows, interface across apps and architectures, and make decisions within defined boundaries only exacerbates these risks. While these capabilities can unlock tremendous value for companies, including improved efficiency, automated decision flows, and more rapid scalability of operations. They introduce new layers of complexity for every organization that must be understood and addressed.

Our own research highlights this urgency. For example, we recently published our annual report on The State of AI, which surveyed 775 companies of all sizes around the world, spanning highly regulated industries like financial services, healthcare, and the public sector.

Among many key takeaways, we found that 86% of organizations have delayed AI rollouts by up to 12 months because of security and governance concerns. This isn't surprising, as many of our customers cite the sprawl of sensitive data driven by a fragmented tech stack and reliance on hundreds of SaaS, apps, and multi-cloud architectures as a top concern.

At the same time, agents can easily access sensitive data across SaaS and cloud systems, often without full visibility or defined life cycles, in turn highlighting concerns around data exposure, compliance, and lack of auditability.

Adequately addressing these vulnerabilities is now business critical, and it is therefore no longer a question of if agentic AI will be governed. It's how. At that point, we believe that organizations must treat agentic AI governance as a first-class discipline, just like data protection, identity and access management, and cloud governance. With that in mind, here is our approach to governing agentic AI and how our platform supports customers in this evolving landscape.

First, we provide visibility and lifecycle control of agents. We have enhanced the AvePoint confidence platform to provide deeper visibility into agentic AI and specifically the life cycle of agents created in environments like Copilot Studio.

For example, we now enable organizations to monitor where agents originate, what data they access, what permissions they hold, and how they evolve over time. This eliminates shadow

agents operating outside of governance frameworks and ensure auditability, transparency, and control throughout the agent lifecycle.

Second, we offer unified protection across multi-SaaS, multi-cloud environments. AI agents exist across SaaS applications, infrastructure, and data stores. That's why we extended our platform to cover multi-SaaS, data protection, and most recently announced data backup and protection for applications such as Monday.com, Docusign, Smartsheet, Okta, Confluence, and for infrastructure like Google GCP VMs. Our objective is to bring the governance of agentic AI into the same control plane as more traditional data protection and cloud governance tools so that governance is holistic and not siloed.

Third, we have robust operational metrics and command center insights. Governance isn't just about setting policies, it's about measuring impact. That is why we recently launched our new Operational Efficiency Command Center within the AvePoint Confidence Platform. It tracks policy violations, agent remediation speed, workspace status, and more, helping organizations measure impact, improve governance, and elevate this discipline to Board-level visibility.

Fourth, we embedded responsible AI practices. We believe governance must be built in, not bolted on. That means embedding controls such as role-based access for agents, segregation of duties, process triggers for agent deployment or retirement, and consistent lifecycle management. Customers can define and enforce policies around agent creation, data access, auditing, drift monitoring, and termination aligned with industry standards and regulatory expectations.

And just as we have helped customers recover from both cyber attacks and operational errors for many years, we offer the same recovery from potential damages done by agents, a capability which is crucial for any company seeking to establish a AI strategy in a secure, scalable way.

And lastly, through collaboration. Effective governance of agentic AI requires broad collaboration from cloud providers to SaaS vendors to internal IT and risk teams. We partner with Microsoft, Google, Salesforce, and our growing channel ecosystem to ensure that governance is deeply integrated and that we are enabling a governance culture in every organization.

This matters to our customers, because the stakes are high and because the upside is significant. We can highlight four immediate benefits for them. The first is risk mitigation. Without governance, agentic AI can become a source of data leakage, compliance violations, audit gaps, or unintended automation errors. Our platform visibility and control help minimize those risks.

Second, operational efficiency. By bringing agent lifecycles into governance oversight, enterprises can safely scale automation, avoid ad hoc build-outs, reduce manual overhead, and accelerate innovation.

Third, trust and accountability. Executives and boards are increasingly asking how are we governing our AI agents? What oversight exists? Can we explain what they're doing? By using our governance-first platform, organizations can build stronger trust with stakeholders and regulators.

And lastly, competitive advantage. Companies that properly govern their agentic AI can confidently move faster and scale smarter. At the same time, organizations that neglect proper governance face delays, rework, or regulatory issues, as I noted earlier.

This platform-driven approach, coupled with our ongoing innovation, continues to resonate in the market and led to strong new logo acquisition and the deepening of existing relationships in Q3.

One of the largest financial service corporations in the United States and a long-standing member of the Fortune 500 needed to replace their manual data governance solutions for M-365 and Power Platform before rolling out Copilot.

They wanted one solution that could help their IT teams address data cleanup and access management, and complex audit needs, and AvePoint was the perfect fit. After solving these challenges with our Control Plus bundle, we're already discussing how we can optimize their data storage footprint and proactively manage the lifecycle of their data with AvePoint Opus.

Additionally, one of the world's largest food and beverage companies expanded its partnership with AvePoint in Q3. Already using our Control suite and Opus from our Resilience suite, they needed enterprise-wide ransomware protection with in-depth Restoration controls for SharePoint Online and Teams, already impressed by our platform's ease of use. Their CISO and IT admins purchased Backup as a Service, securing their most at-risk content and nearly doubling ARR from this strategic account.

Finally, a major Japanese telecommunication company meaningfully expanded its partnership with AvePoint in Q3. Originally a customer of our Backup offerings for Salesforce, they needed to establish data governance controls for Teams and SharePoint Online and properly manage guest access. AvePoint was the only vendor who could address their multiple data security risks, and they purchased product through from our control suite in Q3 to minimize these risks and automate the governance and provisioning of their data repositories.

These new and expanded partnerships are all great examples of how the breadth of the AvePoint Confidence Platform enable us to address multiple strategic AI-driven use cases and deliver both immediate and long-term value to our customers. At the same time, AI is rapidly transforming the digital landscape, and we recognize that our platform offerings and our approach need to move at the same pace. As we look to the future, we believe there are three key areas where governance of agentic AI will evolve and where AvePoint intends to lead.

First, from visibility to autonomous governance. Today, we provide dashboards, metrics, and control planes. Next, we'll layer in more automated governance workflows such as agent risk scoring, automated remediation triggers, policy-driven agent retirement.

Second, from enterprise governance to ecosystem governance. Governance will expand beyond internal agents to partner, develop build agents, federated agents across organizations, and cross-cloud agent networks. We're preparing our platform for that complexity, including the recovery capabilities from potential agentic AI damage that referenced earlier, and evaluating a variety of pricing structures for customers.

And lastly, from compliance to strategic governance. Governance cannot be just about meeting controls. It must be a strategic enabler. We will help customers treat agentic AI governance as a business capability that supports innovation, not impedes it.

Before I turn the call to Jim, I want to reiterate that agentic AI represents tremendous opportunity, but with that opportunity comes responsibility. At AvePoint, we are committed to ensuring that when organizations adopt these new capabilities, they do so with governance visibility, shared accountability, and resilience built in. Doing so will enable them to unleash innovation with confidence, and we're proud to support our customers on that journey.

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

Jim Caci {BIO 18051667 <GO>}

Thanks, TJ, and good afternoon, everyone. Thanks for joining us today. Our third quarter results underscore our ability to execute in a dynamic environment and deliver the robust top-line growth and margin expansion that we have been committed to for many years. At the same time, we continue to complement this strong financial performance with an operating plan that balances strategic investments in our innovative pipeline and go-to-market capacity with a relentless focus on driving operating leverage across our business.

As a result, we delivered a number of highlights in Q3, including quarterly records for net new ARR, the number of 100,000 ARR customer adds operating cash flow generation and non-GAAP operating income in both dollars and as a percentage of revenues. We are proud of these achievements, and we know that continued execution against our strategic priorities will be critical as we March toward our 2029 target of \$1 billion of ARR.

So let's turn to the quarter. Total revenues for the third quarter were \$109.7 million, up 24% year-over-year and 3% above the high end of our guidance. On a constant currency basis, total revenues grew 21% year-over-year.

SaaS delivered another strong quarter with Q3 revenue of \$84 million, growing 38% year-over-year. SaaS also represented 77% of total Q3 revenues, our highest ever quarterly mix, compared to 69% a year ago. And on a constant currency basis, Q3 SaaS revenues grew 35% year-over-year.

Looking at our other revenue lines, services revenues of \$13.8 million represented 13% of total revenues and grew 27% year-over-year, and was the second consecutive quarter of services growth exceeding our expectations. And as we expected, Q3 term license and support declined 21% year-over-year and represented 10% of revenues compared to 16% a year ago.

Lastly, maintenance revenue of approximately \$840,000 represented 1% of total revenues, and as a result, 87% of our total revenues in the third quarter were recurring.

Turning to our performance on a regional basis, in North America, SaaS revenues grew 36% year-over-year and represented 83% of total North America revenues, which in turn grew 14% year-over-year. As we anticipated, revenue growth in North America was impacted by relative softness in the public sector as US Federal agencies navigate a number of changes.

North America revenue growth was also impacted by the much lower mix of term license revenue compared to last year. Both dynamics were in line with our expectations, and while the current government shutdown did not affect our Q3 results, we have factored the uncertainty its impact may have on deal timing into our updated outlook for Q4.

In EMEA SaaS, revenues grew 42% year-over-year and represented 89% of total EMEA revenues, which in turn grew 35% year-over-year, and in APAC, SaaS revenues grew 34% year-over-year and represented 53% of total APAC revenues, which in turn grew 25% year-over-year. On a constant currency basis, EMEA SaaS revenues increased 35% while total revenues increased 28% and for APAC, SaaS revenues increased 33% on a constant currency basis while revenues increased 24%.

We have stressed that ARR is the key metric to assess our performance, and we were pleased that all three regions again delivered ARR growth above 20%. In Q3, North America ARR grew 21%, EMEA ARR grew 28%, and APAC ARR grew 33%. Taken together, we ended the third quarter with total ARR of \$390 million, representing year-over-year growth of 26%, both on a reported basis and after adjusting for FX.

As a result, net new ARR in Q3 was \$22.4 million, surpassing last quarter's record and representing growth of 19% year-over-year. As of the end of Q3, 56% of our total ARR came through the channel compared to 53% a year ago as our strategic priority of driving more business through the channel, which allows us to efficiently realize greater market reach, continues to support our commitment to profitable growth.

Additionally, we ended the third quarter with 762 customers with ARR of over \$100,000, an increase of 21% from the prior year. This also represents the addition of 41 such customers in Q3, our highest-ever quarterly result, and we are equally pleased that our larger customer cohorts once again delivered even higher growth rates in the quarter, reflecting our ongoing success selling the platform to global enterprises.

Turning now to our customer retention rates. Adjusted for the impact of FX, our dollar-based trailing 12-month gross retention rate for the third quarter was 88%, in line with the prior year. I want to again remind you that our calculation of GRR factors in not only account-level churn but also downsell and the performance of our migration products, which have naturally lower renewal rates.

This quarter, migration again served as a 2-point headwind to GRR, so excluding it, GRR would have been 90%. At the same time, our FX-adjusted net retention rate for the third quarter was 110%, also in line with the prior year.

And on a reported basis, Q3 GRR was 88% and Q3 NRR was 110%, both of which represent a 1-point improvement versus the prior year. While we are pleased with the retention rate improvements since the beginning of 2023, we have also cautioned that these metrics can fluctuate from quarter to quarter.

In Q3, the expected softness we saw in the public sector was the primary driver in the sequential step down in our retention rates. Nevertheless, we will continue investing across the company to support ongoing progress toward our longer-term targets and for GRR and NRR, which, to remind you, are 90% plus and 115% respectively.

Turning back to the income statement, gross profit for Q3 \$68.4 [ph] million, representing a gross margin of 75.1% compared to 77% in Q3 of 2024. The year-over-year decline in our overall gross margin is primarily the result of a higher mix of services revenues this year and the lower relative gross margins on those revenues.

Moving down the income statement, operating expenses for Q3 totaled \$58.2 million or 53% of revenues, compared to \$50.5 million or 57% of revenues a year ago. As a result, Q3 non-GAAP operating income was \$24.1 million or an operating margin of 22%, our highest yet as a public company. This compares to non-GAAP operating income of \$17.8 million in the prior year or an operating margin of 20.1%.

We are especially pleased with the ongoing improvement in our sales and marketing expense, which represented 30% of total revenues in the third quarter. To remind you, 30% is our longer-term target for sales and marketing expense, and we are pleased with the team's ongoing improvement in sales efficiency as well as the growing contribution from the channel, which continues to drive this percentage down.

Turning to the balance sheet and cash flow statement, we ended the third quarter with \$472 million in cash, cash equivalents, and short-term investments. And for the first nine months of the year, cash generated from operations was \$55.6 million while free cash flow was \$52.6 million. This compares to cash generated from operations of \$56.1 million and free cash flow of \$53.8

million in the first nine months of 2024. And to remind you, our year-to-date cash flow generation also includes one-time tax payments in the first quarter of approximately \$7 million.

Lastly, we repurchased 528,000 shares in the third quarter for approximately \$8.4 million, and year-to-date, we have repurchased 1.7 million shares for approximately \$27 million and have approximately \$123 million remaining in our authorized share repurchase program.

I would now like to turn to our financial outlook and provide some color into our expectations for the fourth quarter. First, our updated full-year guidance for revenue and non-GAAP operating income includes the respective third quarter outperformance relative to guidance. On top of this, we are raising our expectations for revenue and non-GAAP operating income, reflecting the healthy demand we continue to see across the business.

And lastly, our guidance also importantly factors in the potential impact to deal timing from the ongoing government shutdown. As you know, the timing of deals has a greater impact on ARR than it does on revenue, and so accounting for this uncertainty, which we believe is prudent, is why we have elected to maintain and not raise our full-year guidance for ARR.

As a result, for the fourth quarter, we expect total revenues of \$110 million to \$112 million or growth of 23% to 26% and on a constant currency basis, we expect revenue growth of 20% to 23%.

We expect non-GAAP operating income of \$21 million to \$22 million or non-GAAP operating margin of 19.1% to 19.6%. For the full year, we continue to expect total ARR of \$412.8 million to \$418.8 million or growth of 27% at the midpoint. And on an FX-adjusted basis, we continue to expect total ARR growth of 25% at the midpoint.

We now expect total revenues of \$414.8 million to \$416.8 million or growth of 25.8% at the midpoint. As mentioned, this includes the Q3 revenue beat as well as a \$3 million increase from our prior guidance. On a constant currency basis, we now expect revenue growth of 23.8% at the midpoint compared to 21.5% growth we guided to last quarter.

And lastly, we now expect full-year non-GAAP operating income of \$77.3 million to \$78.3 million, or an operating margin of 18.7% at the midpoint. This represents year-over-year margin expansion of nearly 430 basis points and includes the Q3 operating income beat as well as a \$2.6 million raise from our prior guidance.

On a rule of 40 basis, which for AvePoint is the sum of ARR growth and non-GAAP operating margin, the midpoint of today's full-year guidance reflects a 46. This compares favorably to the 44 we guided to last quarter and to the 38 we guided to at the beginning of 2025. And once again, I would point you to the slides in our current Investor Presentation, which detail our actual Q3 performance relative to guidance, as well as the walk from our prior full year guidance in August to our current full year guidance.

In summary, we are proud of the team's execution in Q3. Our experience in navigating dynamic environments, coupled with the global nature of our business and the balance it offers across customer segments and verticals, position us for continued execution in the quarters and years to come, and we are excited for a strong close to 2025.

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

Questions And Answers

Operator

We will now begin the question and answer session. (Operator Instructions) The first question comes from the line of Shrenik Kothari from Robert Baird. Please go ahead.

Q - Shrenik Kothari {BIO 23079872 <GO>}

Yeah, thanks for taking my question. So, TJ, on AI governance, right, to your point with AI deployments and AI governance becoming more use case specific versus more broad based copilot wide. Like, of all the use cases across, you mentioned the reduction of licensing and prompt filtering compliance visibility, what are the killer AI governance use cases driving the most urgency for your buyers today? And then, since you highlighted agentic inflection, which use cases you believe are going to be the most critical next year? Thanks a lot,

A - Tianyi Jiang (TJ)

That's a great question. Yeah, the urgency today is really about AI readiness to roll out AI deployments across the organization with specific use cases. So this means accuracy. The data that AI grounds on for refinement for industry and company-specific private data that's super important, and also for risk control so the AI doesn't recommend things to your employees that person does not have access to. So, this is immediate activities. We help many agencies and in government as well as public -- as well as commercial to address.

The next level opportunity, which I mentioned in the prepared remarks, it's AI agents. So, from the conversations we have with product teams and business leaders, especially with the hyperscalers, the way everyone's thinking about AI agents in the future is your carbon-based employees are working with AI employees. So everything behind the scenes is wired up for the AI employees to have cloud access control as well as licensing as well as different data services availability.

So full on licensing of this AI agents to us actually come across as this continuation of seat counts as well as compute consumption will continue to increase. So that's actually a massive coming opportunity when it comes to agentic AI deployments.

Q - Shrenik Kothari {BIO 23079872 <GO>}

Great, thanks a lot, appreciate it.

Operator

The next question comes from Rudy Kessinger from D.A. Davidson. Please go ahead.

Q - Rudy Kessinger {BIO 22397309 <GO>}

Hey, great. Thanks for taking my question. Could you, Jim, could you maybe quantify just the impact from some of the federal downsell and whatnot in the quarter to your ARR? And maybe also on the gross and net retention rates and similar question, about the maybe extra conservatism in your revised guidance, if not for that extra conservatism, would you have raised ARR by a couple million, or I don't know, just any additional color or quantification you could give on the federal stuff would be very helpful.

A - Jim Caci {BIO 18051667 <GO>}

Yeah, it's a great question, and thanks for letting me expand on that a little bit. So we did touch on this a little bit in the prepared remarks. But definitely right from the beginning of the year, we had anticipated that there was definitely a lot of uncertainty in the public sector, specifically within

federal, all of the discussion from DOGE in terms of that impact or potential impact, and we actually did see some of that in Q3, some of it was reflected in some of our churns. So definitely had an impact on our GRR.

I commented that it was probably the impact for the -- the step down we had of one percentage point going from 89 to 88 in the quarter was really attributable to what we saw coming from public sector.

And then even just in terms of expansion, last Q3 of 2024 was a very strong upsell quarter for our public sector practice. And this quarter in Q3, 2025, we saw a particularly weaker upsell quarter. So again, that impacted our NRR statistics. So we saw a definite impact there. We haven't specifically quantified the impacts or actually how much business we have coming out of the public sector, but again, it is the driver for those two statistics, and again was the driver really for the kind of what I would say would be weakness in North America.

I mean, we're really pleased that overall North America grew ARR 21% year-over-year despite the weakness that we saw coming from that federal sector. So again, really pleased with the team and the execution, not only in North America but obviously across the globe. And to deliver the 26% growth that we saw.

Now, we have baked it in as you alluded to, we baked that into Q4, tried to be as prudent as possible, knowing that we're in the midst of a government shutdown. Fortunately, Q4 is not nearly the growth engine that we would normally expect that we see in Q3 from the Federal sector. So there is an impact, but not nearly as significant as Q3. And obviously we're hoping that obviously the shutdown doesn't continue for the whole quarter. But again, we tried to be conservative and build in that expectation so that we can deliver.

Q - Rudy Kessinger {[BIO 22397309](#) <GO>}

It's all very helpful. Color. Thank you.

A - Tianyi Jiang (TJ)

Thanks, Rudy.

Operator

The next question comes from the line of Joseph Gallo from Jefferies. Please go ahead.

Q - Joseph Gallo {[BIO 18958030](#) <GO>}

Awesome. Thanks for the question, guys. And I've got two, if that's okay. It was really nice to see the announced new data protection solution for Monday, DocuSign, SmartSheet. When we think about the non-Microsoft-related business, how big is that today?

And then, as we think over the next 12 months, which of those SaaS data stores has the most potential upside, and how big does that mix have to become of non-Microsoft to hit your \$1 billion target?

A - Tianyi Jiang (TJ)

Hey, Joe, that's a great question. We always been sharing that just over 90% is coming from the Microsoft tech stack, and then the less than 10% come from multi-cloud sources. So these additional sources are things we actually have worked with our customers and partners and see

the demand of from even our existing customer base. So these are very nice low-hanging fruit sources of SaaS, Backups as a Service, ransomware detection, recovery capabilities. Because we do see a convergence of data protection, data security, and data governance. So supporting those sources become key for us.

Having said that, we do see a bigger opportunity for growth in the sources that we support in the Google ecosystem, as well as the Salesforce ecosystem. So we'll continue to do that. And there are even more large and deeper sophisticated system that we're looking to extend into like ServiceNow. We said that by 2029, when we get to that billion dollar target, AR target, the non-Microsoft revenue contribution, ecosystem contribution could be potentially as high as 30%. So that's how we are measuring ourselves and quantifying the progression.

Q - Joseph Gallo {[BIO 18958030](#) <GO>}

Okay, thanks for that. And then just it was a really strong profit quarter. You mentioned go-to-market efficiencies. How should we think about sales capacity? Because again, going back to that \$1 billion ARR target that implies you keep growth kind of at the same levels. So, should we expect less leverage going forward as you invest for growth, or maybe just kind of help us think through what sustains growth at the current levels for the next couple years?

A - Jim Caci {[BIO 18051667](#) <GO>}

Yeah, great question. So obviously, we spent a lot of time on this very topic, making sure we have the right capacity in the right places to drive that growth and really capitalize on the opportunities in front of us. So yeah, I mean, we're definitely going to be expanding the teams. We've talked about the expansion that we've already made through the channel and how that continues to grow. We would expect to see that continue to accelerate.

We do believe that's a more efficient way to market. That does not mean we're not investing in our direct go-to-market strategies. We are doing that as well. So we're making investments across the board. But again, our long-term goal is to improve on the current kind of operating profitability to continue to see that improve.

We've had this mantra for the past couple years of profitable growth. We've really been maniacal in terms of focused on it. We want to be growing, but we want to be growing responsibly. And we've, I think, demonstrated that now over the past really 10 plus quarters. And I think again we'll continue to see that moving forward.

Now it will fluctuate from quarter to quarter. It's not linear. Some of our budgeting does vary per quarter. So I would expect to see that kind of fluctuate from quarter-to-quarter both for profitability and growth, and I think that's okay. Our investments are not linear in nature.

So again, I would expect to see that. But the strategy here is we're investing for the long term. Our target is to get to that \$1 billion target in 2029. We're making all of our investments today focused on achieving that goal, obviously, taking care of the current periods but ensuring that everything we're doing today is in pursuit of achieving that longer-term goal.

Q - Joseph Gallo {[BIO 18958030](#) <GO>}

Thank you.

Operator

Next question comes from the line of Erik Suppiger from B. Riley. Please go ahead.

Q - Erik Suppiger {[BIO 1756547 <GO>](#)}

Yeah, thanks for taking the question. I didn't hear anything about the MSP vertical?

And then also one of your peers had discussed a shortening of duration of contracts. I'm just curious, did you see any trends in terms of customer duration?

A - Tianyi Jiang (TJ)

Yeah, I'll take the MSP, and then I'll let Jim answer about the duration question. So MSP continue to be our fastest growing segment. We're very pleased with the progression, and you probably have seen we have announced a number of new capabilities on the MSP segment via our Elements as an MSP offering, but based on our Confidence platform.

So we're very pleased with the continuation of global MSP growth, and we continue to identify that as our way to really unlock the massive long tail opportunities in front of us while we retain our high growth and our enterprise-grade focus around large commercials as well as public sector.

A - Jim Caci {[BIO 18051667 <GO>](#)}

And then on the contract length, so it's interesting, I would say over the past two years, prior to this year, we had seen a decline in our average contract length, and this year, for the first time in that two-year period, each quarter we've seen a slight improvement in the average contract length.

So despite what another company may have referenced for you, we're actually seeing an improvement. That's definitely a lot of hard work from the teams executing, showing value, and securing those longer-term contracts. So we've actually seen an uptick this year in the length of contract.

Q - Erik Suppiger {[BIO 1756547 <GO>](#)}

Very good, thank you.

Operator

The next question comes from Kirk Materne from Evercore. Please go ahead.

Q - Kirk Materne {[BIO 5771115 <GO>](#)}

Yeah, thanks very much, and congrats on the results. Tj, it's sort of a two-parter for you. I was wondering how early on are we in terms of some of your customers launching agents into the field? Just -- I'm just kind of curious what percentage or roughly you think of your client base is actually at the stage where they're putting agents out into production.

And then secondly, do they discuss the launch of them in production with you in concert? Meaning, are they putting in governance as they launch them, or are they sort of just running ahead with agents and then trying to catch up with governance? I realize it might be a mix of both, but I was just kind of curious if you can opine on that a little bit. Thanks.

A - Jim Caci {[BIO 18051667 <GO>](#)}

That's a great question. So it is an often used word, just like Microsoft Copilot is a term for all AI on the Microsoft stack. Agents, when people talk agent loosely today is that there's many agents

already running in many of our large enterprise customers. In fact, we're working very closely with some of the big four auditing firms in terms of governing.

There are thousands of agents internally. But today those agents manifest itself as very small programs that are not really what all the hyperscaler talk about in terms of agentic AI era, full-fledged employee -- digital employees. Those are much, much more sophisticated manifestation that we have not yet seen deployed widely. So today, these agents running around are similar to low-code, no-code like Power Platform apps, but slightly more intelligent with some natural language interfacing capabilities.

Think of them as chatbots and think of them as some automated agents who do some workflows. Think of them as a result of vibe coding by business users. Right? There's also a saying now vibe coding is dead. People realize, actually, a lot of these simplistic implementations do not scale at the enterprise level. And when you actually want to have something that's full-fledged digital employees, that's a completely different type of expectation altogether.

So that is what we're talking about of wiring up all the licensing and all the consumptions and full-on governance. And those people are super, super careful right now with actually instantiating and deploying them. And we're in active conversations with customers to make sure that the guardrail for those type of things are proper. And we're still a bit away from that, I think, overall as the market.

Ignite's coming up. Microsoft's biggest trade show. You will hear a lot about that both from the hyperscalers as well as from us. But there's a lot of intense work go into getting ready for that future where you have full-fledged digital employees. But we're not there yet.

Q - Kirk Materne {[BIO 5771115](#) <GO>}

Okay, that's helpful. And then Jim, I realized the conservatism around the fourth quarter and the Fed makes sense. Do you think the Fed -- are we at a new normal for the Fed? Meaning if the government wasn't shut down right now, do you think that some of the volatility in that sector is sort of -- we might be lower or we might get a lower run rate than where people would have thought a year ago. But I guess, where deals kind of going through as expected before we got to the shutdown.

A - Jim Caci {[BIO 18051667](#) <GO>}

Well, I definitely think there was uncertainty even before the shutdown. I mean, obviously, there's still activity going on from DOGE. We don't hear about it as much anymore, but there's still activity happening there. I do think there were lots of layoffs, lots of uncertainties. I do think it's still a lot of that.

We did hear somebody had mentioned to me the other day, did you see any pull-through acceleration into Q3 before the shutdown? We didn't see that, at least for us. But I think there's still some of that uncertainty. Even if the government is to open up, I don't think we are back to the normal kind of spend, maybe from a year ago.

So I do still think there's some uncertainty there, and we've tried to factor that in and again prepare for kind of almost the same that we saw leading up to the end of Q3, kind of expecting that even when the government reopens.

Q - Kirk Materne {[BIO 5771115](#) <GO>}

That's helpful. Thank you, all.

A - Tianyi Jiang (TJ)

I would just highlight that. At the end of the day, government continue to modernize, data continue to grow. I think no one should be throwing towel here on the federal government. Government is not going to go away. I think the need is still very much there for technology and modernization.

Operator

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

Q - Jared Jungjohann {BIO 22547735 <GO>}

Hi, TJ and Jim, this is Jared on for Derek. I wanted to ask about the newer resilience optimization and ROI command centers. Are any of these having a material impact on pipeline bookings or maybe even growth yet?

A - Tianyi Jiang (TJ)

Yeah, these are really new capabilities. We're seeing very good uptake, but so far it's -- we don't actually go into the specific details so soon after a new product release. Normally, we give those type of updates on a potentially annualized basis or at our Investor Day.

But yeah, we do see. We're very encouraged because again, like you rightly highlighted, cost optimization, cost savings in parallel with security and governance are top of mind for all customers.

Q - Jared Jungjohann {BIO 22547735 <GO>}

Appreciate that. And then for your larger customers, have they been leveraging some of the four deployed engineers, or I think you call them prototype engineers, has this been a big piece of the go-to-market motion? And incrementally, have you been looking more towards these types of engineers?

A - Jim Caci {BIO 18051667 <GO>}

We've been in business for 20-plus years. We chuckle at some of these new buzzwords for deploy engineers. We all have senior-level consultants, especially for our largest customers, to make sure that they are embedded with our advanced architects and solution consultants, making sure that we understand all the nuances and complexity of their environment and their demand. And that's one way to -- one criteria is actually to obviously get making sure our software are deployed to meet their demand.

And two is, have the consultants there to make sure we can actually anticipate demand. That's even a higher need. So that has not changed for us and for many of the tech companies. This is why you always see for really great tech brands, they always have a service component. We also highlighted before we leverage services to generate net new IP for our global customers. So that's always been a tech reality. It's just that now there's a new buzzword for it.

Q - Jared Jungjohann {BIO 22547735 <GO>}

Appreciate all the color. Thank you.

Operator

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

Q - Nehal Chokshi {[BIO 16526682](#) <GO>}

Yeah, thank you. Jim, and you may have already answered this question, so I apologize. But you'd have a healthy revenue beat and raise, but you're not raising your ARR guidance. Can you help me understand why that is?

A - Jim Caci {[BIO 18051667](#) <GO>}

Sure. And we kind of touched on it a little bit earlier, but not extensively so. And Nehal, we've chatted about this before. Obviously, you know that ARR is much more susceptible to timing, right? In terms of, like, we close a deal on the last day of a quarter, it's a million dollar deal, we have a million dollars of ARR, and maybe no revenue or one day's worth of revenue. If that deal slips one day and closes on the day after, we have zero ARR. But the impact on revenue was very tiny, right? Maybe one day or no impact.

So when we look at projecting our revenue for Q4, there's a tremendous amount of backlog for our revenue, and yet we're going to close a ton of new business that will impact ARR but have a very small impact on revenue. And so it's for that reason that we feel confident about raising the revenue guidance, but also understanding that there's potentially some flexibility, or I would say some allowing for a variety of outcomes to happen on our deal closing that allows us and really we want to be prudent about that, and guide to leaving the guidance where it is for ARR, not raising it, but again, still feeling comfortable that the business is strong, has been performing. We feel really good about it. So we're going to raise our revenue guidance and also our operating income guidance.

So again, it's that dynamic between ARR and revenue that's the real key driver.

Q - Nehal Chokshi {[BIO 16526682](#) <GO>}

Got it. Thank you. And then, TJ, I touched on this topic last quarter, but I want to ask it from a different angle now. Does the potential rise of privileged access management incur on the turf of data access management where AvePoint really -- does really well at?

A - Tianyi Jiang (TJ)

No, Absolutely. So there's data access management from a governance perspective, and we obviously have a very unique delegated administration framework where we incorporate business users, contextual knowledge, and their role knowledge to help actually be part of the decision making to enrich the governance overall posture. Because IT oftentimes do not know whether specific data or specific -- even users -- what their use cases are, and how long these things should be around.

Q - Nehal Chokshi {[BIO 16526682](#) <GO>}

Okay. Thank you.

Operator

Next question comes from the line of Joe Vandrick from Scotiabank. Please go ahead.

Q - Joe Vandrick {[BIO 20436683](#) <GO>}

Thanks for taking my question. So I know we've talked a lot about how well-positioned AvePoint is to help enterprises adopt AI, but can you talk more about how AvePoint is incorporating AI into the platform to help drive efficiencies for your own users?

A - Tianyi Jiang (TJ)

Great question. Yes, we have. This is something that we're super excited about. So we already announced a slew of product enhancements that leverages AI. What we realize, and this is now a new analysis and thesis, is that AI is ultimately the new UI. So when you properly blend AI across your offering, leveraging the complexity and richness of our backend framework, data structures, and all the signals that we collect, we can offer essentially infinitely customizable services to our customers.

We already have very large customers that actually come to us, say, hey, we actually like your data layer, and can you also offer that as a service to us? Again, leveraging AI as a super flexible way to curate and extract intelligence from those data layer. So that's something that we're super, super excited about to come out with new offerings that does that.

So, we also have beta preview already. For example, our records solution completely removes any manual work from there, where you interact with the software automatically actually identify for your for example geo for your industry, what kind of regulation there are and automatically suggest the proper taxonomy and labeling for your data set and also go out and do zero shot auto discovery and allow then users to actually provide additional feedback. So it refines.

So this removes a ton of manual work and even base level knowledge tediousness of record management out of it. So these are just few examples of leveraging AI in our product. Internally, we are absolutely leveraging AI. Nearly all of our -- well over half of our developer population are now using AI-accelerated IDEs, and we see very good productivity from that. Not only from a code development perspective, but also from a QA automated testing cases perspective.

And of course, lastly, I would say is from a cloud security and cloud OP perspective. That's also an area where AI continue to play now ever-increasing role to automatically identify risks and potential infiltrations. We, like many enterprise-grade SaaS vendors, we have instances around the world, we manage hundreds of petabytes of data ingestion on everyday basis, and we're also monitoring attacks on an everyday basis.

So leveraging AI to help us speed up that response rate is something we also actively deployed. So we're actually very excited about both internal use cases of AI as well as infusing to our product to push out for external use cases. Ultimately, this will generate much more added value for our customers to be able to truly leverage the power of the entire platform instead of just use specific point products.

Q - Kirk Materne {[BIO 5771115 <GO>](#)}

Very clear. Thanks, TJ.

Operator

The next question comes from Fatima Boolani from Citi. Please go ahead.

Q - Joel Omino {[BIO 23848504 <GO>](#)}

Hey team, this is Joel on for Fatima. Just thanks for squeezing me in. I'll just ask one. So -- totally understand that the public sector is why the ARR guidance is left unchanged. But then if we just

look at the business mix, I mean if we include state and local, it's call it a fifth of ARR. So what are you seeing in the rest of the business that perhaps doesn't give you that confidence to raise the guide despite what you're seeing instead?

And then are there maybe some second-degree impacts of the federal uncertainty that you're thinking about?

And then just a quick follow-up, if you could update us on some of the solution packages that you talked about earlier this year with the resilience and the control, especially on the Google side, it'd be nice to hear if you're seeing any momentum there. Thank you.

A - Jim Caci {[BIO 18051667](#) <GO>}

Thanks, Joel. Yeah, I mean, in response to the ARR, I tell you we are feeling confident. In fact, when I look at what we just did in Q3, all three regions performed greater than 20% year-over-year growth. I think we're still showing healthy growth. We're going to show significant growth for the year. So we feel really good about the guidance now. We didn't raise it for the reasons I stated in terms of trying to be prudent, understanding that there is an impact from the federal sector.

So that to me seems to be the right thing to do. But the rest of the business is performing very well, very nicely. We're excited about that. We see nice growth. And then interestingly enough, I mean we're -- somebody just asked me when we walked in, what were your three key takeaways for the quarter. And it was that one that I just mentioned about the 20% growth or above for each of the three regions. Record profitability in terms of operating margins at 22%.

And then we don't -- we didn't talk about this at all today, but on a rule of 40 basis, we just posted a 48 for the quarter. So that was something we started talking about 2.5 years ago, almost three years ago of getting to the rule of 40 by the end of 2025. And we're right there in terms of at 48, not only there but well beyond. So we're actually -- when we look at it in terms of growth, we're excited and -- we're excited to close out the year strong.

A - Tianyi Jiang (TJ)

Yeah, Joel. And also on the Google side, we're very pleased with our continuation expansion of offerings. We're deepening our relationship there and go-to-market. And also, our bundles are performing well. They really provide the comprehensive value proposition and help our customers leverage more our platforms.

We're actually surprised to find more and more accounts that have both Microsoft and Google modern work -- workloads in the same companies just across different geos. So that's very interesting to see as well.

Q - Joel Omino {[BIO 23848504](#) <GO>}

All right. Thank you.

Operator

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

A - Tianyi Jiang (TJ)

Thank you. Our third-quarter results are further evidence of 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 position AvePoint to tackle the critical challenges of data security, governance, and resilience in today's complex multi SaaS digital landscape.

The time I have spent with our global teams over the past few weeks have only strengthened this confidence and excitement for the road ahead. We're focused on a strong close to 2025 and equally energized for the massive long-term opportunity ahead of us.

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.

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