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AvePoint, Inc.

Fourth Quarter 2024 Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the AvePoint, Inc. Fourth Quarter 2024 Earnings 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 touch-tone phone. To withdraw your question, please press star and then two. Please note, this event is being recorded.

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

James Arestia

Thank you, Operator.

Good afternoon, and welcome to AvePoint's fourth quarter and full year 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 that 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 measure is available in our fourth quarter and full year 2024 earnings press release, as well as our update 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.

I'm fond of saying that, at AvePoint, we do the hard things first. By this, I'm referring to strategic decisions we have made in the last 20-plus years since founding the Company, including our decision to sell first to large corporations in highly regulated industries, which required us to build, and constantly refine, enterprise-grade software. Our decision to sell in countries and regions that historically have been hard to break into, such as Japan, and our decision to undergo a subscription transition without borrowing money. We made these decisions because we are naturally attracted to big challenges, but we also did them as a part of a larger vision to steadily put the pieces in place to support durable, profitable growth at scale, and to position AvePoint to become the world's leading data management software company.

As we conclude 2024 and look to 2025 and beyond, we're ready for the next chapter in the AvePoint story. We have been innovating and growing for more than 20 years, and we have learned valuable lessons in overcoming each of the challenges I just shared. Now, with eight consecutive quarters of exceptional performance behind us, which include accelerating growth, expanding profitability, meaningful cash flow generation, and steady innovation, we are that much closer to our vision, and to the $1 billion AR company we intend to become, and we're excited to continue this journey with you.

Let's turn to the quarter. Q4 was a strong close to an outstanding year for AvePoint, and our results, as well as our outlook for 2025, reflect two central themes. First, the growing demand from companies around the world to prepare, secure, and optimize their most critical data. Second, the continued improvement in our ability to effectively and efficiently deliver on that demand. We're pleased with the team's steady execution as we continue to capitalize on the enormous opportunity ahead of us, and we look forward to sharing more on this with a deeper dive into our business at our next week's Investor Day.

Today, I want to focus on the following: first, the current business landscape, highlighted by the challenges we consistently see our customers facing. Second, the multiple ways our platform solves these data management challenges. Lastly, our Beyond Secure philosophy, which informs how we think about addressing these needs and partnering with our customers. Along the way, I will share some key customer wins this quarter. I will then turn it over to Jim to cover our financial performance in more detail.

Let's start with the current business landscape, where AvePoint has a unique and all-encompassing view of the data management space, given the diversity of our business. This view starts with our end customers, where we ended the year with more than 25,000. We have customers in the Fortune 50, and we have customers with fewer than 50 employees. We serve U.S. federal agencies, and we serve Asian governments. We're just as mission-critical for European manufacturing conglomerates as we are for North America credit card companies.

The point is, AvePoint customers come in all shapes and sizes, but they all face the same data management challenges, and it is clear that successfully solving these has never been more urgent than it is today. This is because all competitive businesses today are propelled by the relentless force of digital transformations, which inherently are linked to managing data. At the heart of their transformations lies data modernization, a critical strategy that involves upgrading and optimizing data infrastructure, tools, and processes. This include hybrid cloud transformation, adopting new data management tools, and implementing data governance strategies to ensure data quality and accessibility.

They're also trying to transform while dealing with explosive growth of data, sophisticated cybersecurity threat landscape, complex regulatory environment, and the need for automation. As we have said, AI is only expected to amplify these challenges. Today, rapid innovation is making large language models more accessible, leveling the playing field for all participants. More companies will lean into AI adoption, which is unquestionably a good thing. In turn, these shifts in value from who has the best model to who has the most high quality data only strengthens AvePoint's role in the AI value chain.

As companies navigate this rapidly evolving landscape, they need a technology partner who can help them thrive securely and efficiently. AvePoint is that partner. Our expertise in data security, governance, and resilience enables businesses to unlock the full potential of their data, to accelerate radical business transformation, and to securely drive innovation. By integrating cutting edge technologies and robust data management strategies, we position businesses for unprecedented success. As we look across our global business today, those are the challenges and opportunities our customers are facing.

Now I want to turn to why our platform is the perfect fit for this moment, and why we're so excited about the opportunity ahead. First and foremost is our platform strategy, ensuring every feature and solution works together to maximize interoperability. As I mentioned a moment ago, there are a number of big problems we can help customers solve. They need to protect their data and ensure that it is backed up and easily recoverable, especially given today's heightened level of crippling ransomware attacks and breaches. They need to govern their data and ensure that proper data access policies are in place. They want to archive or dispose of redundant, obsolete, or trigger data so they can effectively leverage AI strategies and reduce storage costs. They need to seamlessly do all of these things for a data estate that is larger and more dispersed than ever before.

These data management challenges are so big that most software companies only focus on one of them, which is what we see as a pain point for customers seeking true platform plays and fewer vendors, and our ability to deliver on this demand again lead to significant expansions and new customer wins this quarter demonstrating the power of our platform approach.

A major global automaker with 60,000 users expanded their relationship with AvePoint in Q4. They added our data resilience solutions for their Microsoft and Google environments to ensure compliance with the NIS 2 Directive, a cybersecurity-focused E.U. regulation. Similarly, an American mortgage company and a staffing agency became new AvePoint customers this quarter in competitive wins over traditional backup vendors who could not offer the same holistic data resilience and data governance approach that

AvePoint does. Lastly, a leading global producer of a renewable packaging with 100,000 users expanded their AvePoint deployment to not only consolidate and protect its data, but to also understand how its employees are adopting and using Microsoft 365 Copilot through our tyGraph product.

The second value proposition we offer are robust data security and data governance policies that ensure their data is not just protected, but strategically governed. This led to expansion of our relationship with a leading global bank with more than 100,000 users, which needed to seamlessly monitor storage growth, alleviate data scroll, and satisfy security access audits. Another example was a top global consulting firm, which needed to strategically govern its Microsoft 365 environment before deploying 22,000 Copilot licenses. By expanding their AvePoint deployment in Q4, they can now automate policy enforcement, ensure proper permissions are in place, gain visibility into who is oversharing data, and implement information lifecycle management, all of which will enable them to securely deploy Copilot.

Lastly, business continuity has always been a customer priority, but essential to this is our ability to bring data resilience and data quality into a single seamless experience. This led to a significant customer expansion with a Canadian-based defense company turning to our Resilience and Control suites to secure their environment with FedRAMP-authorized solutions. It also led to a 30,000-person Australian health organization becoming a new customer in Q4. They leveraged our Resilience suite to quickly achieve Essential Eight compliance, and we are already discussing how the governance solutions in our Control suite can flawlessly work with and build upon our backup solution.

Ultimately, AvePoint's holistic approach to AI deployment integrates data security, governance, and business continuity solutions into an easy to deploy platform, making us the preferred vendor for organizations worldwide. This approach is the foundation of our Beyond Secure philosophy and addresses the inadequacies of traditional data management, which often involves piecemeal solutions that breed complexity and erode confidence. By comprehensively tackling these challenges, we inspire trust and enable our customers to thrive, focusing on innovation and competitive advantage without worrying about their data.

In line with this are two exciting developments. First, our strategic acquisition of Ydentic, a SaaS company specializing in centralized multi-tenant management for Microsoft Managed Services Providers, or MSPs. By integrating Ydentic's advanced automation and IT management capabilities into the next generation of our Elements platform, we will drive further competitive differentiation and economic opportunities for MSPs, ensuring that these valuable partners can deliver exceptional value and innovation to their customers. Second are the release of new data security solutions for Google Workspace and Google Cloud customers, reinforcing our commitment to securing and protecting data across multi-cloud environments.

We have done the hard things first, and today AvePoint stands at the forefront of addressing the pivotal challenges in data security, governance, and resilience. Our innovative platform approach sets us apart from traditional point solutions, enabling our customers to achieve transformative results and give them the confidence to excel in today's digital age. I'm proud of the team's many accomplishments this year, and we're excited to double down and make an even larger impact in 2025.

With that, I will turn the call over to Jim to discuss our financial performance and 2025 outlook.

James Caci

Thank you, TJ, and thank you to everyone for joining us this afternoon.

We are pleased to deliver another outstanding set of results in Q4. The team's broad-based execution enabled us to again outperform our guided growth and profitability metrics, and there are four key takeaways I want to call out for the quarter. First, total ARR growth, which accelerated to 24% year-over-year, and was 25% when adjusted for FX. Second, net new ARR growth, which was 30% year-over-year, and just shy of the record 31% growth we delivered in Q3. Third, both gross and net retention rates improved to all-time highs. Finally, substantial improvements in both non-GAAP operating income and cash flow generation.

Another quarter of strong top line growth is a testament to our leadership in the data management space and our platform differentiation as we continue to see healthy demand from organizations of all sizes in all regions and across all industry verticals. This demand includes both new customers making larger upfront commitments, as well as existing customers looking to expand their deployments and realize even greater value from our solutions. We are equally pleased that our exceptional top line performance is not coming at the expense of profitability.

At our inaugural Investor Day two years ago, we stated that profitable growth was our top priority. Since then, we have committed to balancing strong growth at scale with improving profitability, and our results in Q4, as well as the previous seven quarters, are evidence of our ability to deliver on this promise.

Our Q4 non-GAAP operating margin was 16.2%, comfortably above the high end of our guidance, and a meaningful improvement from a year ago. In turn, our improved profitability has led to record cash flow generation, as we generated $32.8 million of operating cash flow in Q4, surpassing last quarter's record and nearly $90 million for the full year. There is plenty to be excited about. The demand and the market opportunity are there for us, and our relentless focus on execution and realizing efficiencies across the business leave us well-positioned to continue driving shareholder value.

With that, let's turn to our results. For the fourth quarter ended December 31, total revenues were $89.2 million, representing year-over-year growth of 20%, and above the high end of our guidance. On a constant currency basis, total revenues grew 20% year-over-year. Once again, SaaS drove our overall business. Fourth quarter SaaS revenue was $64.8 million, growing 43% year-over-year, and representing 73% of total Q4 revenues, the highest mix we have delivered yet. For reference, SaaS represented 61% of Q4 revenues last year. On a constant currency basis, SaaS revenues grew 44% year-over-year.

Our other revenue lines continue to perform in line with our expectations. Term license and support declined to $9.4 million and represented 11% of Q4 revenues, as more customers continue to opt for our SaaS offerings. Maintenance revenue, which is tied to our legacy perpetual licenses, also declined year-over-year and represented 3% of total Q4 revenues. Lastly, services revenue was $12.2 million and represented 14% of total Q4 revenues. Because services is our only non-recurring revenue stream, our recurring revenue mix in the fourth quarter was 86%.

Switching now to our regional performance, where we continue to see a healthy contribution from all three geographies, again driven by SaaS. In North America, SaaS revenues grew 46% year-over-year, and represented 77% of total North America revenues, which in turn grew 8% year-over-year. In EMEA, SaaS revenues grew 37% year-over-year, and represented 86% of total EMEA revenues, which in turn grew 29% year-over-year. In APAC, SaaS revenues grew 50% year-over-year, and represented 52% of total APAC revenues, which in turn grew 30% year-over-year.

Sticking with our regional performance, we again saw strong results when looking at ARR, which accounts for the different ways we recognize revenue, and also focuses on our recurring revenue streams. This was especially important in North America in Q4, where our 8% revenue growth was due to much higher SaaS mix, as well as a greater shift of services business to partners this year compared to last year. This is why we believe ARR is the best indicator of business momentum, and in Q4, North America ARR grew 21%. At the same time, EMEA ARR grew 24%, and APAC ARR grew 29%, as each region was again a strong contributor to the 24% consolidated ARR growth we reported.

Continuing now with total ARR and other key metrics we assessed on a quarterly basis. As of December 31, total ARR was $327 million, representing year-over-year growth of 24% and 25% when adjusted for FX. As a result, net new ARR in Q4 was $18.1 million and grew 30% year-over-year. Additionally, we ended Q4 with 666 customers with ARR of over $100,000, a 22% increase from the prior year, and a net addition of 37 such customers from Q3, which surpassed the record 35 that we added last quarter. Lastly, we also are pleased to report that we ended Q4 with 225 customers with ARR of over $250,000, which is a 26% increase over '23.

As of the end of Q4, 55% of our total ARR came through the channel, compared to 51% a year ago. For Q4 specifically, 61% of our incremental ARR came through the channel, compared to 68% for Q3 of 2024 and 65% for Q4 of 2023.

Turning now to our customer retention rates, which, as I mentioned, improved to all-time highs in Q4. Adjusted for FX, our trailing 12-month gross retention rate for the fourth quarter improved to 89%, and our trailing 12-month net retention rate improved to 111%. In both instances, these retention rates were a 2% point improvement from a year ago, and a 1% point improvement from Q3.

On a reported basis, Q4 GRR improved to 88%, compared to 86% in Q4 of 2023, and 87% in Q3. Q4 reported NRR was 110%, a 2% point improvement from a year ago, and a 1% point improvement from the prior quarter.

Turning back to the income statement, gross profit for Q4 was $67.3 million, representing a gross margin of 75.5%, compared to 75.2% in Q4 of 2023, and to 77% in Q3 of 2024. The year-over-year improvement in our gross margin is primarily the result of our product mix, where there was a greater mix of SaaS revenue, as well as improved SaaS margins, which more than offset the weaker services margin we saw in the quarter.

Moving down the income statement, fourth quarter operating expenses totaled $52.8 million, or 59% of revenues, compared to $45.8 million, or 61% of revenues a year ago. As a result, Q4 operating income was $14.5 million for an operating margin of 16.2%, a year-over-year improvement of more than 240 basis points. To remind you, these results are on a non-GAAP basis, but I also want to point out that Q4 represented our second consecutive quarter of GAAP operating profitability, and also allowed us to deliver GAAP operating profitability for the full year 2024, a year ahead of our 2025 commitment we made at our inaugural Investor Day.

Turning to the balance sheet and statement of cash flows, we ended the fourth quarter with $290.9 million in cash and short-term investments. As I mentioned, for the 12 months ended December 31, cash generated from operations was $88.9 million, while free cash flow was $85.9 million. This compares to cash generated from operations of $34.7 million, and free cash flow of $32.6 million in 2023. I would point out that our full year free cash flow margin of 26% more than doubled the 12% margin we delivered in 2023.

Lastly, I want to provide an update on our publicly-traded warrants. First, our cash balance at year-end of $290.9 million includes $17.2 million of proceeds from warrant exercises in the fourth quarter. For Q1, another $7.6 million warrants have been exercised through the close of trading on Tuesday, resulting in an additional $87.3 million of proceeds. This leaves $7.2 million warrants outstanding as of Tuesday.

Before I turn to our guidance, I'll briefly recap our full year 2024 results. Total revenues were $330.5 million, representing growth of 22% on a reported and constant currency basis, and an acceleration from 2023. Within total revenues, SaaS revenues were $230.7 million, with growth accelerating to 43%. For the full year, SaaS revenues represented 70% of total revenues, compared to 59% in 2023 and 50% in 2022.

As mentioned, total ARR as of December 31 was $327 million, representing growth of 24% or 25% when adjusted for FX. As a result, net new ARR for the full year was $62.5 million, representing growth of 25%. This compares to net new ARR in 2023 of $49.8 million, which grew 5% over 2022. Non-GAAP operating income for the full year was $47.6 million, or an operating margin of 14.4%, compared to $22.2 million in 2023 or a margin of 8.1%. As I mentioned earlier, GAAP operating income for the year was $7.2 million as we delivered our commitment to GAAP profitability a year ahead of schedule. During the year, we repurchased approximately 3.3 million shares for a total cost of $33.1 million. Lastly, on a Rule of 40 basis, which for AvePoint is the sum of ARR growth and non-GAAP operating margin, we finished 2024 at 38, compared to 31 for 2023, and 27 for 2022.

I would now like to turn to our financial outlook for the first quarter and full year of 2025. For the first quarter, we expect total revenues of $87.8 million to $89.8 million, or growth of 18% to 21%. On a constant currency basis, we expect revenue growth of 19% to 22%. We expect non-GAAP operating income of $11.1 million to $12.1 million. For the full year, we expect total ARR of $401.3 million to $407.3 million, or growth of 23% to 25%. This implies net new ARR for the year of $77.3 million, or year-over-year growth of 24% at the midpoint.

Adjusted for FX, we expect total ARR growth of 24% to 26% for the year. We expect total revenues of $380 million to $388 million, or growth of 15% to 17%. On a constant currency basis, we expect revenue growth of 17% to 19%. Lastly, we expect full year non-GAAP operating income of $52.3 million to $55.3 million. As we think about the Rule of 40, today's full year guidance reflects a range of 37 to 39 on a reported basis, and a range of 38 to 40 when adjusted for FX.

In summary, we are extremely proud of our Q4 and full year results, and we look forward to sharing a deeper dive into the business at Monday's Investor Day.

Thanks for joining us today, and 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 touchstone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star and then two.

Our first question comes from Jason Ader with William Blair. Please go ahead.

Jason Ader

All right. Almost got that right. Hey, guys. Good afternoon. I just wanted to ask a few questions about the business here. First, can you disclose what your U.S. federal exposure is, and how are you thinking about that business in light of what's going on in D.C. right now?

Tianyi Jiang

Hey, Jason. Good question. To start, it's important to know that our federal business—our public sector business is a global public sector business. Specifically, to U.S. public sector, we actually have three separate business divisions. That's federal, that's state and local education, as well as DOD. We're actually taking a look at the specific agencies that are impacted by some of the staff reduction initiatives, and also looking at, because we have multi-year contracts with government as well, looking at which agencies are due for renewal cycles this year. All of that effectively narrowed down to just basically 2% of our total ARR, so the exposure is around that.

Having said that, though, while there are staff reduction actions happening, the fundamental requirement of digital transformation, elevating advancing technology deployments, and also AI deployments still allow us to have very active conversations with the agencies around their data, (inaudible) postures, and their AI readiness capabilities. There's lots of technology discussions ongoing.

Jason Ader

Okay, thank you. Then Jim, maybe for you, your gap between ARR growth and revenue growth in 2024 was, what, about four points, something like that? Just looking at '25, it seems like it's a bit of a wider gap. Is there something going on in '25, just from a revenue standpoint, that is causing that? Is it FX-related? Or any specific nuances that you can call out would be helpful just in explaining the discrepancy between ARR growth and revenue growth in '25.

James Caci

Yes, I think you touched on a key there. I do think there's an FX impact for sure. As you know, obviously we're a global business. A significant portion of our revenues are in non-USD denominated currencies, so that's definitely a factor. I would say, beyond that, there's nothing really to call out or to highlight any other vectors that are creating any disparity there. We are obviously continue to see an increase in our ARR, particularly when we think of our revenue mix, where we think of services as the only component that's not really ARR-focused. We're definitely seeing that continue to decline as a percentage of the overall revenues. Again, I think there's nothing really to call out other than the FX.

Jason Ader

All right, thank you.

Operator

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

Joel Allon

Hi. This is Joel Allon (phon) for Fatima. Thanks for taking our questions here. Maybe one for Jim, in terms of pricing, it's been great to see the NRR and ARR trajectory over the past several quarters, but could you characterize perhaps the impact of any price increases on ARR and NRR in 2024? And to the extent that you can quantify any magnitude, that'd be very helpful, and then I have a quick follow-up.

James Caci

Sure. In thinking about pricing, and really NRR specifically, Joel, we've probably talked about this before, the big driver for us when we think about NRR is really customers consuming more and more of the platform, which is really then consuming additional products, more so than more of any one product. That's the biggest driver behind our NRR growth.

Then secondarily, as you alluded to, we do look at prices across multiple different products within our suites, and we look obviously at market conditions, and where there's elasticity to improve pricing, we're doing that. Obviously, we play in competitive markets. I would say, in terms of quantification, we did increase prices across multiple products this year. But I would say overall, it's a very small percentage of our overall improvement in NRR. I wouldn't think of that as a driver for going forward NRR increases. I think that's really coming from customers consuming more of the platform.

Joel Allon

Okay. Got it. Then on the recent announcement for the data security solutions for Google, I'm hoping you can give us a bit more color, maybe TJ, on just how big of a step or a leap forward this is in your journey to expand beyond Microsoft environments. Then also, if this is perhaps a significant driver to calendar '25 momentum.

Tianyi Jiang

Yes, Joel. Great question. Our customers are multi cloud. We talked about this quite a bit before. That expansion into Google, we have already been covering Google from a backup and service perspective before, but this time we're also layering risk intelligence, as well as cycle management, as well as data analyst and modernization. Essentially full fidelity seamless data migration between the hyperscalers. We're pretty excited about this expansion that positions us well as a more strategic partner for our customers who are multi cloud. Yes, it's really a large new IP expansion versus what we offered before.

Joel Allon

Got it. Thank you.

James Caci

Thanks, Joel.

Operator

The next question comes from Gabriela Borges with Goldman Sachs. Please go ahead.

Max Gamperl

Hi. Good afternoon. This is Max Gamperl, on for Gabriela. Thanks so much for taking our questions. TJ, we're hearing a greater number of companies highlight the opportunity in data security posture management. I'm curious if you're seeing any change in the competitive environment as more companies are targeting the data security market. How is this market evolving, given the heightened awareness within the DSPM category specifically?

Tianyi Jiang

Yes. It's always been pretty competitive. We have also continued to evolve our platform. We have definitely a platform approach towards governance and security, so DSPM is an aspect of our platform. We are also active conversation and coverage by Gartner and Forrester, and also G2, these industry analysts. Yes, the landscape continue to be competitive, but we are able to take our enterprise grade platform and win there, and also be able to cross out and also expand our segmentation coverage into mid-market SMB and do that at a global level.

We're very bullish and confident on where we're going. You'll hear more from us on specific product evolutions at our Monday Investor Day conference, where we'll disclose more details about product and also competitive landscape. We'll welcome you to see you there.

Max Gamperl

Got it. Thank you. Then with regards to your Ydentic acquisition, can you elaborate on the integration goals with this company as it relates to your managed services platform? Maybe you could touch on how we should think about your M&A strategy on a go-forward basis.

Tianyi Jiang

Yes, that's a great question. We're excited about the acquisition of Ydentic. It's a Netherlands company. They're focused on Microsoft MSPs in terms of identity, security and user management. It allows us to speed up our IP expansions of our MSP offerings to include more day two, day three solutions. As I covered in previous earnings before, MSP vertical, it's our fastest growing vertical. It allows us to become mission critical to this new segment of managed services providers that actually allow us to then expand and unlock our reach into SMB and medium-sized customers in a very efficient way.

We also have these Elements go-to-market platform that solves the go-to-market, lower the barrier to entry, digital integration, pool licensing, monthly contracts to really roll up and get that mission-critical usage patterns for the MSPs. We're very excited about that expansion.

In terms of M&A, we will continue to be quite focused on that, as well as our organic investments. Again, we'll share more on the strategic vectors of growth at our Investor Day, where you'll hear from Jim our latest cash position where we're cash generating. We have a very healthy balance sheet. We will invest for growth. Profitable growth is the mantra here, but we feel that we have a very strong cash position, and we're also expanding and see a very good market position. That also leads to a very active M&A targeting today.

Max Gamperl

Great. Thanks so much.

Tianyi Jiang

Thank you.

James Caci

Thanks, Max.

Operator

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

Nehal Chokshi

Thank you. Congratulations on a strong finish here. I want to go back to Jason's second question regarding the spread between ARR and revenue growth. If I look at it on a constant currency basis, in calendar '24, it looks like the spread is 300 basis points. Then on a constant currency basis, it's 700 basis points for calendar '25. It doesn't seem like FX is the main driver of the delta in the increasing spread here. It is an element, but not the main driver. Maybe my math is wrong or maybe there is something else there that you want to highlight there, Jim.

James Caci

Yes. I think FX is obviously a key component, but you're right. It's also mixed in terms of the different types of revenue that we're seeing, and obviously whether that's services or SaaS. That's definitely going to play a factor, too, in terms of obviously the more SaaS, we're creating a little bit more of a dynamic there, just in terms of the rev rec. You've seen over the past year our term license revenue declining. That gives us that upfront bump in the term revenue piece. As that continues to shrink and become less a percentage of the total, then we create a little bit more gap between ARR and revenue in the short term. That's partly what you're seeing in addition to the FX in 2025.

Nehal Chokshi

Okay. You would expect the term license decline to accelerate here in calendar '25 relative to the growth rate you saw in calendar '24?

James Caci

Yes. What we've got in the plan, like you've seen over the past couple of years, we've seen that term license continue to decline, right? It declined not only as a percentage of revenue, but also in actual dollars. We would expect that to continue again in '25 where we're going to see a further deterioration in dollars and obviously even a greater decline in percentage of revenue. Again, we would expect that for the full year next year to continue that trend and obviously have an impact on the mix that we just talked about.

Nehal Chokshi

Got it. Okay. That makes a lot of sense. Then you've fallen two years of about 400 (phon) basis points for your EBIT margin expansion. You're projecting a flattening here, a non-GAAP EBIT margin. Is it basically a signal that it's time to invest aggressively again?

James Caci

Great question, Nehal, and I appreciate you bringing it up, because I do think there's a couple points to make here. One, and maybe the first point, really, is our focus has been on profitable growth. I don't want this to take away from our focus still is on profitable growth. That's first and foremost. Second, you're right. We do see a healthy pipeline. We see good momentum in the business that we've been able to execute, and we feel really good about the demand environment that we see out there. That does give us some confidence to actually invest. We do think that the third component is it's important to make strategic investments and really position us for the long-term growth that we do see.

Now, you're right. Two years ago, we talked about profitable growth. We talked about hitting targets of GAAP profitability, which we've already exceeded in a year earlier than anticipated, and we focused on being at the Rule of 40 in 2025, which again, we're still committed to doing. But we do recognize that, in order for the long-term success, we do need to make investments, and those are broadly in two key areas: sales and marketing, we're going to invest additional dollars next year; and also in R&D. Again, this kind of sets us up nicely, we think, for the long-term growth.

Now, having said that, we're going to continue to look and see where we can find efficiencies and still focus on that profitable growth. But we're setting ourselves up here with our guidance that we're putting out today that we're focused on profitable growth, but also the long-term success of the business.

Nehal Chokshi

If you do deliver top line upside, will you plow that back into further office investments?

James Caci

That's a great question. I would say that that's something we'll continue to evaluate, similar to we take a very measured approach on investments, as you know. I think we've done a good job and demonstrated over the past eight quarters that I think we're able to make those quarter-to-quarter decisions. We're constantly looking out 12 to 24 months. I would say that I don't want to commit to what you just said. I do think there's a balance between over performance of investing that into the future, and also recognizing some of that in the current. I think it could be a mix, but I would say, again, we're really satisfied with the execution in '24. We've got a good plan for executing in '25, and we're excited about delivering against that.

Nehal Chokshi

Okay, thank you. I'll cede the floor.

James Caci

Thanks.

Operator

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

Chirag Ved

Hi. This is Chirag, on for Kirk. Thanks for taking the question, and congratulations on closing out a very strong fiscal '24. TJ, from your perspective, how much further along are we on the data modernization and AI adoption timeline today versus this time last year for companies and customers? Where do you still see the largest opportunities that AvePoint can capitalize on over the next year as every company is still looking and trying to figure out how to implement AI in their tech stacks? Thank you.

Tianyi Jiang

Yes, great question. With the recent disruption in commoditization and lowering the cost of large language models, we see a lot more excitement from customers to really make AI more accessible. However, from our perspective, we say that the experimentation and enterprise rollout still fundamentally depend on data quality, addressing potential loss and oversharing risks, as well as data governance and security, which is our core business.

We think making a large language model is more accessible, and lower cost is fundamentally a very good thing. We continue to see more and more global deployments of AI capabilities, especially in the form of Microsoft Copilot and also Google Duet. From that perspective, we are very confident on how we continue to add value because, fundamentally, your AI is only as good as your data. That's our wheelhouse, and that's something that we've been helping customers solve for the last 20-plus years.

Chirag Ved

Great. Jim, maybe one for you. Do you have any comments on seasonality that we should factor in when thinking about the next fiscal year?

James Caci

That's a great question. Historically, we have had significant seasonality, and I do think that when we think about different components, if we think about revenue, I think you're going to see similar seasonality that we've seen in the past. I think, if I were modeling, I think that's a pretty good guide, is that we'd probably see seasonality that'd be similar to 2024. I do think we've talked about ARR before, that it is a little bit more difficult to predict quarter-to-quarter because obviously a deal slips one day and it's in one quarter or it's not in that quarter, hence the reason we guide ARR only annually. But I do think that we may start to see a little flattening out of that, but again, I think that's a little too hard to predict. Again, we stick to the annual guidance.

Then operating income, I do think here we may see a little bit more flattening out. It's still going to be seasonal as you've seen this year, but I do think there's an opportunity for that to be a little bit more flat and be more correlated with the revenue. Maybe just one last comment on ARR, I do think, similar to last year, where we didn't guide per quarter but gave some indications that historically Q1 is our lowest ARR quarter. Q2 is a little bit better. Then the second half of the year is better than the first half, and you saw that play out in '24. I would suggest that that same mix will probably be similarly played out in 2025.

Chirag Ved

I really appreciate it. Thank you.

Operator

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

Cole

Great. Thanks, guys. This is Cole, on for Derrick here. You talked about Google a little bit. Can you just, TJ, maybe comment on demand or adoption trends outside of the Microsoft ecosystem across Google and Salesforce? That'd be helpful.

Tianyi Jiang

Yes, we actually see—because we have data on these other ecosystems, there's tons of experimentation. The enterprise-wide deployment is still sitting in various single percentages in terms of total population, but obviously the opportunity is there. We also see Salesforce's Agentforce adoption is also not as fast as they actually would like to see. There's cautiousness, of course, in the enterprise, because fundamentally it's based on how well organizations organize their data, and to feed them to the AI models for productive output. That's where this time is spent, to actually organize data in a high-fidelity fashion, and this is where governance and data lifecycle and access control of AI become very, very important.

This is where we are involved with a lot of organizations on sorting out that first step. With most AI deployments, I would say 70% effort is actually data preparation and data management. Also, the outputs of these AI models they're increasingly being used as additional inputs, so we see that 10% of unstructured data are also now generated by AI. This further reinforces the need for companies, all industries to make sure that they have a robust data governance and management framework in place so that they can deploy AI.

We see that we're still in the early innings of enterprise-wide AI deployments, but we think that, given the breakneck speed of improvements in the fundamental AI capabilities, that is coming at an accelerated pace.

Cole

Super helpful. Then just one quick follow-up, you talked a little bit about investing back into the sales and marketing org. Could you just break that down for us a little bit? Is that across direct sales, channel? Any good market tweaks that you might be making into next year will be helpful to hear about.

James Caci

Yes, sure. I think it's across both of those that you just mentioned, and maybe even beyond that. We think, as we pointed out, we've made significant investments in the channel part of our business and really the indirect sales motion. We'll continue to do that. We're going to expect to see continued progress and improvement in really the deal flow and the incremental ARR that's coming through the channel, so we would expect that to continue to grow. But obviously we have a healthy direct business as well, and we're continuing to make investments there.

We're doing that both in terms of people costs, technology to help those individuals, as well as marketing dollars to support their efforts and initiatives. We're really making and plan to be making these investments. Again, most of this will have contribution in '26 and beyond for the investments that we make in '25, because most of '25 is supported by the investments we've made in '24. Again, this is very much more forward-looking, but it's across the variety of items you just mentioned, and then also different initiatives as well.

Cole

Helpful color. Thank you, guys.

James Caci

Thank you.

Operator

The next question comes from Brett Knoblauch with Cantor Fitzgerald. Please go ahead.

Brett Knoblauch

Hi, guys. Thanks for taking my question, and congrats on the quarter. Just on your operating income guidance, I think you just touched on it, but it seems like we're not getting that much margin expansion this year despite ARR growth, I guess in terms of your guide, accelerating year-over-year. How should we think about that when it comes to free cash flow as well? This year, free cash flow margin was quite ahead of non-GAAP operating income margin. Should we expect those to be closer as we look at '25?

James Caci

Yes. Thanks, Brett. Yes, I think we definitely touched on, like you mentioned, some of the impact and the investments that we're making that I think do have an impact on the growth, and so maybe I won't go back and repeat those. But in terms of the cash flow that you referred to, you're right. We had a very strong cash flow generation this year. I would expect next year that we're going to see improvement in cash flow, probably not the same acceleration that we saw this year.

Obviously, the step up from '23 to '24, as you called out, 14.4% operating income margins compared to 8.1% in '23, obviously that was a significant contributor to that growth, but I would expect us to see growth in the cash flow from operations, but also in free cash flow over what we just did in '24. Again, you're right. It's really our focus on taking that excess profitability, investing it back into the business, and really setting ourselves up for success in '26 and beyond.

Brett Knoblauch

Perfect. Appreciate it, guys. Thank you.

James Caci

Thanks, Brett.

Tianyi Jiang

Thanks, Brett.

Operator

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

Tianyi Jiang

Thank you, everyone, for joining us today. As we reflect on our performance in Q4 and the full year, I'm incredibly proud of what we have achieved. Our results underscore the strength of our strategy and the dedication of our team. Over the past month, I've had the privilege of meeting with our global teams at our 2025 sales kickoffs around the world. These interactions have left me inspired and confident that we have the right people, the right market position, and the right technology to continue driving our success.

We're excited about the future and the opportunities that lie ahead. We look forward to seeing many of you at our Investor Day next week, where we will delve deeper into the market landscape, our innovative technology, and our business and financial outlook. Together, we'll continue to build on our momentum and achieve our ambitious goals.

Thank you.

Operator

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