



AvePoint, Inc.

Fourth Quarter/Full Year 2025 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

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PRESENTATION

Operator

Good day, and welcome to the AvePoint, Inc. Fourth Quarter and Full Year 2025 Earnings Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing star, then zero on your telephone keypad. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two.

Please note, this event is being recorded.

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

James Arestia

Thank you, Operator.

Good afternoon and welcome to AvePoint's fourth quarter and full year 2025 earnings call. With me on the call this afternoon is Dr. TJ Jiang, Chief Executive Officer; and Jim Caci, Chief Financial Officer. After preliminary remarks, we will open the call for a question-and-answer session.

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

Please note, this presentation describes certain non-GAAP measures, including non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating income and non-GAAP operating margin, which are not measures prepared in accordance with U.S. GAAP. The non-GAAP measures are presented in this presentation as we believe they provide investors with a means of understanding how Management evaluates the Company's operating performance.

These non-GAAP measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with U.S. GAAP. A reconciliation of these measures to the most directly comparable GAAP financial measures is available in our fourth quarter and full year 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

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

Our fourth quarter results were a strong conclusion to an outstanding year. Our leading position in mission-critical data management, coupled with market demand for data protection in the AI era, enabled us to accelerate revenue growth, deliver our eleventh straight quarter of double-digit growth in net new ARR, and achieved double-digit GAAP operating margins.

Very few software companies can point to comparable levels of organic growth, GAAP profitability and strong cash flow generation, and even fewer sit at a critical intersection of data protection and security. Importantly, we see healthy demand from companies spanning every size, vertical and region of the world, validating our conviction in a large and growing market for secure, automated, and AI-ready data governance and resilience solutions.

This broad-based customer demand isn't surprising as it's clear that AI has transformed the speed, scale, and stakes of data security and governance for companies everywhere. Organizations no longer view data governance as simple back-office hygiene, has become the prerequisite for AI and Agentic AI adoption, and our customers and partners continue to tell us the same thing. Before they can deploy AI at scale, they need one company that can secure, govern and operationalize their data with confidence. In fact, I just met with one of our financial services customers who, in Q4, replaced patchwork tools and a vendor they had for over 20 years with AvePoint.

Our platform now secures, governs and guarantees data recovery for nearly 100,000 employees who drive \$25 billion in annual revenue. That's not a workflow that gets agented away. It's the trust layer that makes enterprise AI possible in the first place.

With stories like these, I'll focus today on the durability of our value, and share why, despite speculation about the future of enterprise software in the context of Agentic AI, AvePoint will capitalize on the AI data protection opportunity in 2026 and the years ahead.

First, I want to remind you of 3 long-standing trends that you have heard us discuss for years: the relentless growth of data; the complexity of systems; and the severe consequences of poor data management. These challenges existed long before AI, but have only accelerated in recent years, as data now spans cloud platforms, on-premise systems, third-party tools and AI-driven workflows.

AvePoint brings order to this chaos. We ensure that data is reliable, governed and secure, and we have done this for more than two decades for thousands of customers. While AI is a powerful tool, enterprise-grade software remains essential for managing complex environments and ensuring regulatory compliance. If your AI relies on inconsistent or poorly governed data, it becomes a liability rather than an asset.

The AvePoint Confidence Platform is the solution to this challenge. Specifically, it's our platform architecture which determines how effectively organizations can discover, govern, protect and recover data across distributed multi-cloud environments. That not only makes us unique today, but provides a durable competitive moat.

To start, our platform serves as a foundational layer within any data protection framework, acting as the control plane for policy management and real-time remediation and the connectivity tissue for enterprise security operations. By maintaining a robust API framework and interoperability across hybrid cloud environments, we enforce strict identity verification and leased privileged access at the data layer, and immediately remediate any potential breach or policy violation.

This approach was crucial for one of our largest consumer packaged goods customer who faced significant challenges around ransomware threats, intellectual property protection and data access compliance, before launching Copilot. Using our platform as the core of their data protection strategy, we cleaned up their ROT data, deployed data resiliency across their 13,000 global employees, and implemented granular access controls. By starting at the data layer and utilizing our policy management and real-time remediation capabilities, they now have safe, secure, and compliant data they can trust to power their businesses.

Our solutions also ensured that proper provable access controls are in place for Copilot and other agents. We can solve challenges like this for thousands of companies because of our platform's ability to define all of their unstructured data, and then visualize how its attributes, including sensitivity, intent and lineage, evolve in real time. This contextual data, which is housed with us and which you heard Anthropic discuss on Tuesday as a critical input to their goal of transforming knowledge work, provides AvePoint an enormous

competitive advantage because our customers rely on us to govern the data in real time. Customers today know that proper data governance requires more than logs or snapshots. It requires a live context that our platform provides, that AI cannot deliver on its own, and that traditional static databases miss.

It was this technological differentiation that led a large construction company to become a new AvePoint customer in Q4. They were recovering from a major cyber incident and preparing for broader AI adoption, but their core issue wasn't simply storage or cleanup. It was a lack of real-time context into how their sensitive data was evolving and being accessed across their environment. By deploying our unified platform with live visibility and control across unstructured data, they were able to reduce access fraud and saved up to \$1.3 million, improved data quality and, most importantly, govern risk as they emerged. With AvePoint as their strategic partner, and restored confidence in their data foundation, they are now positioned to safely expand protection across their cloud and Azure workloads.

Our platform is the result of decades of innovation and refinement, and today features a layered, interoperable architecture built for scale. It also functions as a governance and control layer for Agentic AI, providing the trusted data foundation that agents need to act safely and effectively in the AI era. This includes a business logic layer which defines the security and operational rules required by the customer; an elastic scaling data abstraction layer, which allows the platform to meet massive data surges without performance degradation; and AI-specific remediation, which leverages proprietary algorithms to identify threats designed to bypass AI guardrails.

We have always aimed for our innovation to keep up with the larger technological changes taking place. Today, as agents proliferate, the missing layer isn't more AI. Its governance and operational oversight for AI.

That's exactly why we built our sixth command center, AgentPulse, which provides unified visibility, governance and operational oversight for Agentic AI. Affluent customers can now inventory agents across their digital estate; surface usage, risk and cost signals; monitor performance drift; and ultimately take action when needed. As companies scale their Agentic AI deployments, AgentPulse becomes the operational cockpit that ensures safety, compliance and measurable value.

Lastly, building on AgentPulse are new Agentic AI governance and data protection features that we announced earlier this month, which provide customers with better insights about agent security posture and ability to correct security problems directly in the Confidence Platform, helping them use Agentic AI tools safely and efficiently. In short, no other platform combines modularity with tailored functionality to manage critical data in real time across cloud vendors. This was also validated by Gartner, which referenced AvePoint in their latest research on how to build a strategy for M365 Copilot and Agentic AI in 2026.

As we continue to introduce extensions to existing cloud services and to new applications, the Confidence Platform will further consolidate point solutions to drive a faster ROI, which in turn only deepens our competitive advantage.

Our conviction in our platform differentiation is not to suggest that every enterprise software company is immune to disruption from AI. In fact, it's quite the opposite. We believe every company, regardless of industry, will be impacted by AI, but those that use AI to drive innovation as their core competency will be successful in delivering durable growth in the years ahead.

Specific to software, we believe the winners will offer the market two things: a true platform offering that provides pricing flexibility and ultimately leans on consumption-based and cost-saving focused licenses; and end-to-end vertical organic integration, ranging from development to go-to-market, to best-in-class cloud ops and security, to continuous enhancements and improvements. We are mindful of this with every strategic decisions we make, and will further differentiate ourselves by leveraging our domain expertise, our extensive partnerships, and our global scale and distribution to solidify our leadership position in the responsible and effective deployment of AI across all enterprises.

As technology evolves, we are enhancing our go-to-market strategy to prioritize bundle offerings, building on last year's successful launch of our control and resilience packages. These bundles deliver comprehensive, outcome-based solutions, addressing data cleanup, life cycle management, governance, storage optimization and protection, which customers and partners prefer over fragmented tools. While we have historically licensed by seat count, we anticipate moving towards a hybrid model that incorporates capacity-based and data volume pricing, especially as AI enhances productivity, but retains user-driven workflows.

In Q4 and throughout 2025, we proved that AvePoint is built for this moment, and our belief in the long-term market opportunity has only strengthened. As organizations modernize their processes and workflows, the need for a secure, governed and resilient data foundation that transforms enterprise data into a secure, high-quality signal for AI, only becomes structurally more important. That's what our platform delivers, making us the trusted long-term partner for our customers.

We have said before that our ambition is big, reaching \$1 billion ARR by 2029, but it's grounded in operational discipline, durable market demand, and a platform strategy that is only becoming more relevant as AI adoption grows. While questions about market cycles or technological disruption will come and go, our conviction in the durability of the market opportunity and our ability to capture it, has never been stronger.

I want to thank the entire AvePoint team for their tireless efforts in making 2025 an exceptional year of execution and continued growth, and we're excited for an even stronger 2026. Thank you again for joining us today. I will now turn it over to Jim.

James Caci

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

Coming into 2025, our outlook reflected two central themes: first, the growing customer demand to prepare, secure and optimize their critical data; and second, the ongoing improvement in our ability to efficiently deliver on that demand. These themes gave us the confidence to continue investing in support of our strategic priorities and our 2029 goal of \$1 billion in ARR, while remaining committed to delivering ongoing top line growth and margin expansion.

As we recap our fourth quarter and full year results today, we are proud that they validate our strategies and demonstrate our ability to execute on our commitments to shareholders. Q4 had a number of highlights, including acceleration of our revenue growth; our eleventh straight quarter of double-digit growth in net new ARR; substantial expansion of both GAAP and non-GAAP operating margins; and our continued success selling the AvePoint Confidence Platform to large enterprises, reflected in the record number of \$100,000 and \$250,000 ARR customers added.

We are particularly proud of these accomplishments in light of the two goals we set at our first Investor Day three years ago, namely that by the end of 2025, we would deliver GAAP operating profitability, and we would be a Rule of 40 company. While we delivered GAAP profitability in 2024, a year ahead of schedule, we delivered on both of these commitments in 2025 with a Rule of 46 and a GAAP operating margin of 7.9% for the year. These accomplishments have only strengthened our conviction in the market opportunity and our ability to execute, and we have even better visibility into the growth vectors that will propel us toward our \$1 billion ARR target for 2029.

As TJ mentioned, there are very few software companies that have our organic growth profile, scaling operating margins and GAAP profitability, material cash flow generation and healthy SaaS KPIs. This exceptional financial position, coupled with the competitive differentiation that TJ discussed, are why we will continue to balance strategic growth investments in our go-to-market capacity and innovation pipeline, with a continued commitment to driving operating leverage across the business.

Let's turn to our results. Total revenues for the fourth quarter were \$114.7 million, up 29% year-over-year and comfortably above the high end of our guidance. On a constant currency basis, total revenues grew 25% year-over-year, a meaningful acceleration from Q3.

SaaS continues to drive our business, with Q4 revenue of \$88.9 million, growing 37% year-over-year. The strong customer demand for SaaS is also reflected in our revenue mix, as it represents 78% of total Q4 revenues, surpassing last quarter's record. On a constant currency basis, Q4 SaaS revenues grew 33% year-over-year.

Services revenue of \$14.6 million represented 13% of total revenues and grew 20% year-over-year, while term license and support revenues grew 7% year-over-year, and represented 9% of Q4 revenues compared to 11% a year ago. Lastly, maintenance revenue of approximately \$981,000 represented 1% of total revenues, and continued its expected decline. As a result, 87% of our Q4 revenues were recurring.

Looking at our geographical performance, we were pleased that each region delivered a strong close to the year. In North America, total revenue growth accelerated to 25% year-over-year, driven by SaaS revenue growth of 34%. In EMEA, total revenue growth accelerated to 39% year-over-year, driven by SaaS revenue growth of 44%. In APAC, total revenues grew 23% year-over-year, driven by SaaS revenue growth of 32% and service revenue growth of 25%.

On a constant currency basis, EMEA SaaS revenues increased 33%, while total revenues increased 28%. For APAC, SaaS revenues increased 31% on a constant currency basis, while total revenues increased 22%.

We were pleased to see the same strength and balance when looking at ARR. In Q4, North America ARR grew 20%, EMEA ARR grew 32%, and APAC ARR grew 34%. Taken together, we ended the year with total ARR of \$416.8 million, representing year-over-year growth of 27%, or 26% after adjusting for FX. As a result, net new ARR in Q4 was \$26.8 million, once again surpassing last quarter's record, and representing growth of 48% year-over-year. Lastly, as of the end of Q4, 57% of our total ARR came through the channel compared to 55% a year ago.

Our success at the enterprise level has been consistent for many years, but it was especially notable across our large customer cohorts in Q4. We ended the year with 826 customers with ARR of over \$100,000, a year-over-year increase of 24%. This record growth also represented the addition of 64 such customers in Q4, easily surpassing last quarter's record of 41. In addition, we ended the quarter with 298 customers with ARR of over \$250,000 as we added 28 such customers in Q4 and 73 for the year, both of which were records.

Lastly, we now have more than 100 customers with ARR of over \$500,000, as well as 31 customers with ARR of more than \$1 million. Taken together, these results demonstrate that we are meeting the demands of organizations looking for single platform vendors that can address multiple strategic use cases.

Turning now to our customer retention rates, adjusted for the impact of FX, our Q4 gross retention rate was 88%, and our Q4 net retention rate was 110%, both of which were in line with Q3. I want to remind you that GRR factors in account level churn, customer down sell, and our migration products, which have naturally lower renewal rates. This quarter, migration served as a 2-point headwind to GRR so, excluding it, GRR would have been 90%.

I also want to point out that in Q3 and Q4, we did see a higher migration contribution than in prior years due to increased customer modernization efforts around AI deployment. While we believe this positions us to potentially cater to additional use cases outside of migration for these customers, this dynamic could put modest pressure on GRR in 2026.

On a reported basis, Q4 GRR was 88% and Q4 NRR was 111%, with GRR in line with the prior year and NRR representing a 1-point improvement.

Turning back to the income statement, gross profit for Q4 was \$85.1 million, representing a gross margin of 74.2% compared to 75.5% a year ago. The year-over-year gross margin decline is primarily the result of a higher mix of services revenue this year, and the lower relative gross margins on those revenues.

Moving down the income statement, Q4 operating expenses totaled \$62.2 million or 54% of revenues compared to \$52.8 million or 59% of revenues a year ago. As a result, Q4 non-GAAP operating income was \$22.9 million, with our 20% operating margin representing year-over-year expansion of more than 370 basis points.

Sales productivity was a key driver of the increase as this metric improved every quarter over the course of 2025, and was our highest ever in Q4. These improvements, along with our growing channel contribution, continue to drive down our sales and marketing expense as a percentage of revenues, which was 31% for Q4 and 32% for the year. To remind you, our long-term target for this is 30%.

Turning to the balance sheet and cash flow statement, we ended the year with \$481 million in cash, cash equivalents and short-term investments. For the year, cash generated from operations was \$85.3 million or a 20% margin, while free cash flow was \$81.6 million or a 19% margin.

I also want to call out our remaining performance obligation, which crossed the \$0.5 billion mark in Q4, growing 36% year-over-year to \$508.1 million. The ongoing strength of this metric reflects the longer term commitments that customers are making, and they're investing in our platform as a foundational layer for governing, protecting and operationalizing data as they scale AI across the business.

Lastly, we repurchased 1.7 million shares in the fourth quarter for approximately \$22.4 million.

Before I turn to our guidance, I'll briefly recap our full year 2025 results. Total revenues of \$419.5 million represented 27% reported growth, and 25% constant currency growth, both of which were an acceleration from 2024. SaaS revenues grew 38% year-over-year to \$319.2 million, and represented 76% of total revenues compared to 70% in 2024 and 59% in 2023.

As mentioned, total ARR as of December 31 was \$416.8 million, representing growth of 27% or 26% when adjusted for FX. As a result, net new ARR for the full year was a record \$89.8 million, representing record growth of 44%. This compares to net new ARR in 2024 of \$62.5 million, which grew 25% over 2023.

Full year non-GAAP operating income was \$79.2 million, or an operating margin of 18.9% compared to \$47.6 million in 2024 or a margin of 14.4%. GAAP operating income for the year was \$33 million, with GAAP operating margins expanding 570 basis points year-over-year to 7.9%. This expansion was driven by the improvements I discussed earlier, as well as our management of stock-based compensation expense, which is now less than 10% of our revenues, and which we expect will further decrease as a percentage of revenue in 2026.

During 2025, we repurchased 3.4 million shares for approximately \$50 million; and through the close of trading last week, we have repurchased another 2.8 million shares year-to-date, or more than 80% of the total shares repurchased last year, for another \$33.5 million. Share buybacks remain a key pillar of our capital allocation philosophy, and we intend to remain active and opportunistic in the open market, reflecting our belief in the underlying strength of our business and commitment to driving shareholder value.

Lastly, on a Rule of 40 basis, which for AvePoint is the sum of ARR growth and non-GAAP operating margin, we finished 2025 at the Rule of 46, as I mentioned earlier. This compares to the Rule of 38 for 2024, and the Rule of 31 for 2023.

Turning now to our guidance, for the first quarter, we expect total revenues of \$115 million to \$117 million, or growth of 25% at the midpoint; and on a constant currency basis, we expect revenue growth of 20% at the midpoint. We expect non-GAAP operating income of \$19.5 million to \$20.5 million.

For the full year, we expect total ARR of \$525.1 million to \$531.1 million or growth of 27% at the midpoint. On an FX-adjusted basis, we expect total ARR growth of 26% at the midpoint. We expect total revenues of \$509.4 million to \$517.4 million or growth of 22% at the midpoint; and on a constant currency basis, we expect revenue growth of 20% at the midpoint.

Lastly, we expect full year non-GAAP operating income of \$92.6 million to \$96.6 million. Finally, on a Rule of 40 basis, the midpoint of our initial full year guidance is a 45.

Before we open it up for Q&A, I want to provide some additional color into our guidance and how we are thinking about Q1 and the year. First, our guidance philosophy remains unchanged. We want to responsibly set expectations that are consistent with the demand trends we are currently seeing.

Second, our FX-adjusted ARR guidance for the year is 26% growth, in line with 2025. I also want to remind you that our 2025 ARR included \$2.8 million in Q1 from our acquisition of Ydentic. Adjusting for this, our guidance for FX-adjusted ARR growth represents an acceleration over 2025.

Third, the delta between our guidance for ARR and revenue growth is driven by two factors: our services business, which is excluded from ARR and which we expect to grow at a slower rate than in '25; and our term license revenue, where we expect growth to be roughly flat versus 2025, and thus we'll realize less upfront revenue in 2026.

Lastly, with regard to margins, we expect that 2026 will be an investment year, specifically focused on strengthening our go-to-market strategy through meaningful increases in marketing spend. I want to reiterate that there is no change to our long-term target of 25% to 30% non-GAAP operating margins, while reminding you of our prior commentary that the margin trajectory between now and 2029 won't be perfectly linear. Importantly, as I mentioned, we expect the stock-based compensation will further decline as a percentage of revenues in 2026, and thus GAAP operating margins will, in fact, expand this year.

In summary, we are proud of our fourth quarter and full year 2025 results, which are a testament to the execution of our teams, and the growing demand for our platform offering. As we look ahead, our conviction in the market opportunity and our ability to capitalize on it has only grown, and we are excited for another strong year.

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

Operator

We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. 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 then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Joseph Gallo with Jefferies. Please go ahead.

Joseph Gallo

Hi, guys. Thanks for the question. Jim, I want to follow up with something you said at the very end. It was a really, really impressive constant currency ARR guide. Constant currency always makes my head spin a little bit, but I believe it's an acceleration of new constant currency dollar growth versus what you saw this year. If you could unpack a little bit more the visibility, confidence, and any specific product drivers into that guide?

James Caci

Yes. Thanks, Jo. You're spot on. Sometimes it does get a little confusing with FX, so definitely appreciate that complexity when we talk about that. But you're right, we're looking at an acceleration in terms of our guidance compared to last year, and so we're excited about that. We're seeing that really across the board.

I think one of the things you've probably noticed is that we have this consistent growth across all three regions. That's been very helpful in terms of really that balanced ARR approach, whether it's our regions, or even our customer segments, and even our verticals, and so we see that same demand moving forward. We see nice pipeline building across all of those metrics, and so that gives us that confidence to see into the future and look at that ARR guidance and feel good that we're going to be able to deliver on that acceleration.

Joseph Gallo

Awesome. No, that's really clear and helpful. Then maybe as a follow-up, TJ, you spent a lot of time talking about AI on the call. It's certainly been a buzz for the past few years, but you haven't necessarily seen that excitement materialize into revenue for cybersecurity vendors. Are you seeing that now, or is that still more of a longer term gradual driver?

Tianyi Jiang

Yes, we are seeing enterprises actually all have AI projects and deliver realizations around efficiency, especially easier workloads like coding, customer support, marketing content generation. On the Microsoft side, a lot of folks are conflating the Copilot adoption as synonymous with AI adoption. That's not the case. We actually see companies actually deploying AI in various forms, whereas the broader Copilot usage tend to lag behind even for firms that are fully licensed.

We see that this is due to more of the lack of enterprise data readiness, which tend to yield suboptimal experience for rolling out Copilot. Also, this is part of change management, it's tough for a business user to try several times and have some suboptimal output due to lack of high-quality data and some of the inaccuracies. This led to some trust issues, but these are the exact kind of problems we address for our customers and partners, so we do see tremendous demand in that regard.

Joseph Gallo

Awesome. Nice job, guys. Thank you.

James Caci

Thanks, Jo.

Operator

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

Chirag Ved

This is Chirag, on for Kirk. Congrats on the quarter, and thanks for taking my question. TJ, in your prepared remarks, you touched on developing a hybrid pricing strategy over time that balances seats and usage. Can you speak to where in the platform you might see the opportunity for this over time, and any early feedback from partners or customers? Thank you.

Tianyi Jiang

Yes. Thank you for that question. Today, we already have capacity-based licensing across products like migration, and also IaaS and PaaS data protection and governance. We have extended very much in the compute infrastructure, not only just productivity workloads, that's Office Cloud and Google Workspace; but the compute side, which is Azure, GCP and AWS. There, it's actually natural for customers to think about consumption-based licensing, and this is also how hyperscalers think about it as well. It's a blend of seat versus consumption-based.

We also see, in the age of Agentic AI, where there are more sophisticated agents being deployed, these agents are actually fully licensed to, from a software perspective, from a licensing perspective, looks like a virtual employee. You have agents that have an e-mail account, that has a CRM login, that also have cloud storage access and accounts. From that perspective, there's also that seat count conversation, but overall, we are very much focused on working with customers, regardless of the structure, to ensure that they are able to maximize their investment to drive customer value.

So far, we haven't seen overall seat count reduction in a major way, because there's a combination of consumption. There's also this virtual AI agent licensing. We'll continue to evaluate, and looking at work to be done, not just the people doing it. This is where the IaaS and PaaS expansion with consumption leaning will be a bigger piece of our business going forward.

Chirag Ved

Sounds good. If I could just squeeze in one more on that line of thought, AI governance clearly remains a strategic focus. As we look into 2026, how early are we in terms of customers meaningfully monetizing agent governance, and what are some of the leading indicators that you're seeing that signal that AI-driven use cases are becoming a more material ARR driver rather than AI readiness spending?

Tianyi Jiang

That's a great question. I think the buzzword of the year is AI agentic governance. You've seen Microsoft released their agent governance capabilities. We actually announced our capabilities at the same time, AgentPulse, which covers multi-cloud. Particularly, we're looking at agentic not only governance from a risk exposure perspective, access control, but also the cost.

We hear a lot of customers talking about, hey, we got an agent running 24/7 and, all a sudden, it's racking up a \$100,000 bill. That cost thing is real, and we are actively working with our partners and customers to monitor and ring in that agent aspect of it. We're already seeing the beginning of revenue generation from that type of need, but that's definitely something that's very much in demand. There's a ton of experimentation with agentic AI, as you would expect, so the risk, control and cost is very much top of mind for our customers.

Chirag Ved

Perfect. Thanks so much.

Operator

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

Rudy Kessinger

Hi. Thanks for taking my questions. Congrats on the quarter and the strong guide here. Jim, I appreciate the call out of the inorganic contribution to net new ARR in Q1 last year. I guess are there any further parameters you could give us to help think about the sequential pacing of net new ARR throughout the year, and specifically in Q1?

James Caci

Yes. Thanks, Rudy. Good question. I would say we're probably going to be fairly consistent with what we said in the past on this topic. As you know, we don't guide today to quarterly ARR, but what we've historically seen is that Q1 is generally a step down sequentially from Q4, and it's usually our lowest quarter in terms of ARR. Then we'd see a pickup in Q2, and then the second half of the year is generally stronger than that first half of the year. I think we're going to see that play out exactly similar to what we've seen in the past, so I wouldn't expect any change there.

Then you're right, we do have that little bit of a call out from last year. We added that \$2.8 million in Q1 last year. As we think about this year, obviously we're not going to have that incremental, but again, we feel really good about where we're going to land for Q1 and really the year, and feel good about that overall guidance.

Rudy Kessinger

Got it. Then I know you called out that you saw higher migration contribution in the second half of '25, and we can see the modernization ARR growth really accelerated. It was close to 40% year-over-year. Your 2026 ARR guide, does that assume that you continue to see growth in that modernization ARR? Does it moderate a bit? What does it assume? Because that reacceleration of growth in that modernization suite is quite the acceleration from the past few years, so I'm curious just what your guide assumes on that front.

Tianyi Jiang

(Multiple speakers).

James Caci

Sure. Go ahead.

Tianyi Jiang

Yes, and then you can go. Modernization? Yes, we do see high demand for migration. We want to articulate that migration is effectively data movement. Data will never stop moving between different cloud providers, between on-prem legacy to modern workloads in the cloud. You have divestitures, you have acquisitions. That will continue to happen.

That's a very important aspect of our tip of the spear approach to engage partners and customers early. You have seen, since we've gone public, we have actually given much of the service revenue opportunities on modernization, data integration migration to our partners, but that also leaves a tremendous value for us to engage our partners and customers buy our product. After that, we have the day two solutions around governance; around data protection; ransomware detection and recovery; and of course, now, with license control, cost control.

We will continue to see this monetization to be a core part of our platform as a way to engage and expand our footprint. Jim will talk a bit about the GRR headwind. There's two factors. When the migration project is over, what we have in day two solutions, if the ARR is less than a migration project on license piece, it will lead to a perceived GRR decline, and that's a vast majority of the cases. Very few cases where, after migration project's over, we don't have a day two solution running in the customer environment.

James Caci

Yes. The only thing I would add to that, because I think you did a good job, TJ, of summarizing that, would be maybe to come back to your question, Rudy, about our expectations for next year. I think we would

expect to see a similar kind of growth next year, where, again, we would expect this to, as TJ kind of alluded to continue to be top of mind for our customers and be part of their strategy. Again, we would expect this to continue to grow.

I think as a percentage of our overall ARR, it steps up a little bit. We're mindful of that when we think about our GRR, which is why you probably heard us talking about all the GRR initiatives we've had over the past year or so, and we're continuing to work on those. We believe that, with some of those initiatives, that we're naturally seeing some pickup in terms of GRR, which will offset any real headwind coming from migration in GRR. We did want to point it out as just to that is what we're seeing, and obviously, those are the dynamics.

Rudy Kessinger

Great. Thank you, guys.

James Caci

Thanks, Rudy.

Operator

The next question comes from Jason Ader with William Blair. Please go ahead.

Jason Ader

Good afternoon, guys. For Jim, just wanted to talk briefly about free cash flow. It looks like it was down a little bit on a dollars basis this year. I think you had initially expected it to be up a bit. Maybe just talk about what is happening there, and then maybe just give us some guidelines for 2026 on free cash flow.

James Caci

Sure. Yes, I'm glad you brought it up, Jason. I think maybe two things to call out. One is that in '25, we did have, at the beginning of the year, some, what I would call, onetime tax payments that needed to be made. That definitely brought down some of the free cash flow that we would have otherwise anticipated. That was to the tune of about \$7 million. I think we talked about that in Q1. That's one factor.

The second factor is we did have a very strong Q4, and we did have a number of opportunities that were actually invoiced in Q4 of this year. Last year, they were actually invoiced in Q3 and collected in Q4, and so those opportunities remained outstanding at the end of this year. A couple of those had to do with our public sector customers, and so we understand the challenges there.

That also had an impact on our free cash flow because, in '24, those would have been collected and in '25, they were still receivables at the end of the year. That had a little bit of a timing issue, and so again, I don't think there's a challenge or a problem or a concern. Again, when we think about '26, I think our free cash flow is still going to be above what we would consider our non-GAAP operating income. I think that trend would continue, and we would expect to see that in '26.

Jason Ader

Okay, but also fair to say that term biz being a little bit lighter in '26 in the mix impacts your free cash flow because you the cash upfront on the term license, and if that's going to be a little bit smaller in the mix, then that will have a headwind to free cash flow, correct?

James Caci

Let me just dive into that a little bit, because it's worthwhile. When we think about that term license, remember, that's only the revenue recognition. That customer is the same as a SaaS customer, where we're billing upfront. It's the same dynamic, it's the same ARR, it's the same billing structure. It's just the revenue recognition on the term is more upfront as opposed to ratably over the course of the contract, so cash flow is unchanged, but the revenue is different. As we see that our term license becomes less and less a percentage of the total, then that does impact the revenue recognized in that year, and it becomes more ratable, like SaaS.

Jason Ader

Okay. I guess what I was referring to is if you do a three-year term deal, you do not collect all the cash up front, you just can collect it annually. Is that the right way to think about it?

James Caci

That's the right way to think about it, is our multiyear contracts are still paid annually, and then the revenue would be different, obviously, for SaaS versus term.

Jason Ader

Okay, helpful. Then one for TJ. TJ, can you just elaborate on the investments you're making in 2026, you talked about it as an investment year, and particularly around your hiring plans? I know there's just a ton of fear out there about jobs and how many jobs are going to be around in five years for knowledge workers and engineers, et cetera. Maybe just talk to that in addition to just the specific investments you're making in 2026.

Tianyi Jiang

Thank you, Jason. That's a great question. We're not slowing down on the tech side. We have seen productivity improvements with, like other tech companies, leveraging AI-driven IDEs to get high productivity improvement. In our case, we use GitHub Copilot.

There, we also continue to invest into tech, but at the same time, you've seen in Jim's prepared remarks, we have actually controlled the cost of that very well, so we continue to have the efficiency. Not only do we have tech productivity improvements, but we still monitor the efficiency very carefully, because profitable growth is the mantra. On the tech side, we are not slowing down or reducing headcount.

On the non-tech side, we are very actively looking at continued productivity improvement, leveraging AI. There's a number of initiatives internally leveraging AI so that we can really continue to accelerate our strong business presence and global go-to-market flywheel that we have going, both for the enterprise segment as well as the channel and partner investment in the mid-market SMB segment.

Lastly, it's not related to headcount, but from a product perspective, you hear we talk about the scaling of data fabric layer. That's something we're super excited about. You'll hear more in the coming months because we actually have close to a zettabyte of unstructured data that we're now surfacing out to our customers through what we call a new data intelligence as a service offering.

Combined with AI and UX enhancements, that will allow more real-time unstructured data governance and intelligence at scale to better service more user persona. This will massively broaden our data protection and management platforms consumption base and lead to, we believe, much further stickiness and realization of value of our offerings, which is the core of base level infrastructure for all AI projects and deployments across companies.

All these things you hear me talking is really focused on growth. We think the pie is getting bigger.

Jason Ader

Thanks, guys. Good luck.

Tianyi Jiang

Thank you.

James Caci

Thanks, Jason.

Operator

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

Erik Suppiger

Yes, thanks for taking the question. First off, on the operating margin guidance, it looks like it's going to be relatively flat in fiscal '26. What will you change as you get past fiscal '26 so that you can start to expand those margins to get to your target for fiscal '29? What gives you confidence that you're not going to have a slowdown in ARR as you invest less?

James Caci

Yes. Great question, Erik. I think one of the things that gives us confidence is our history now over the past three years of this profitable growth strategy and driving significant ARR growth. Okay, there's a bunch of sirens outside there, so hopefully, you guys aren't hearing that, but all kinds of police activity outside. Okay, great.

I think that gives us confidence that we've executed now over the past three years on this growth strategy, and delivering both profitability and ARR growth. What we've decided to do really for '26 is continue to do that, but look at making some outsized investments, particularly as I called out in the prepared remarks, in marketing in particular, to really take advantage of this dynamic in this environment we're in right now, and look to really spend more than we have in the past on marketing and really kind of lean into our go-to-market positioning. That's different.

Some of the investments that TJ alluded to, both technically for our development teams, but even operationally, we are making investments both in '25 that just passed, but also in '26. Those investments won't really pay significant dividends in '26, but we're talking about operational efficiency from a technology point of view, AI adoption, and those will have benefits going forward, so some of our scalability moving forward should be much more efficient. That gives me the confidence that '26, although the operating margins are relatively flat, that we will be set up to deliver expanded margins moving forward.

Erik Suppiger

Okay. Very good. Then your growth in your larger customers was very good. Can you comment as to whether or not that's coming more from seat expansion at those customers, or is that layering on new services, or is it the combination of the two?

James Caci

Yes. Historically, if you look at our NRR, it is mostly coming from cross-selling activities of customers consuming additional products more so than seats. The only exception to that is our MSP channel. Generally, our MSPs or more successful MSPs. Obviously, they're expanding, they're adding seats that

they're managing for their customers, and so we see seat expansion there, but generally the driver has always been and continues to be adoption of additional components in our platform. That's been the key driver, and we expect that to continue.

Erik Suppiger

Very good. Thank you.

James Caci

Thanks, Erik.

Operator

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

Derrick Wood

Thank you, guys. Congrats on a strong quarter. First one for TJ, obviously a lot of concern of software disruption from the LLM vendors as they move up stack into more of the workflow orchestration layer. Obviously, you don't seem to be seeing it at all, but how do you think about the potential risk of these vendors encroaching on your part of the market, and how should we think about your defensibility in these core areas?

Tianyi Jiang

Yes, that's a great question. We always say that we continue to see robust growth. We have multiple vector of growth, so we have continued to accelerate our new logo acquisition. There's still tons of greenfield opportunities, both in existing regions and newer ones from our existing customers.

We have a massive upsell opportunity, as clearly demonstrated through the new customer acquisitions and the cohort increase in ARR. Of course, our channel, focusing on MSPs, still our fastest-growing segment, unlocking SMB and mid-market. We have not seen slowdown in SMB, as some other vendors have seen, and also from a geography perspective.

We attribute this much to our platform expansion of our enhanced products and our capability around the fundamental underbelly of the data curation, data governance, and the context of data for which AI grounds on. We even called out Anthropic's identification of that specific critical moat in their Tuesday conversations, and that, we believe, is something that's very, very strong in our perspective as a defensible moat.

Of course, software, we think, isn't dead. There's going to be far more software to be written. The ability to write software and costs have come down and become easier, so there are a lot more niche areas that can now serve by software. We think there's an infinite amount of software to be written, so AI can definitely lower the barrier to entry.

For critical enterprise scale data management, you actually need more rigorous approach to this infrastructure for AI, and that's the layer we play in. We enable high-quality data to give you better AI-driven outcome, and this isn't going to change. We are seeing tremendous demand and no sign of slowing.

Derrick Wood

Okay, great. Yes, probabilistic technology, probably not that great in enterprise security needs and compliance needs, but good to hear. Jim, real quick for you, could you just comment on how the U.S. Fed business performed relative to expectations and what you're seeing in terms of pipeline and demand?

James Caci

Yes, great question. What we saw in Q4 was, I would say, similar to what we had seen in Q3 in that the public sector and particularly Fed space growth rate was lower than North America in general. That's why, I think I said in the remarks, we're really pleased that North America still grew 20% despite that.

Having said that, we still are very keen on the public sector. It's a big part of our global strategy, still part of our North America strategy, and for us, there's really multiple components within public sector. We've all been talking about the federal, and that's really the federal civilian piece of the pub sector, but there's obviously state and local, and there's also Department of Defense.

Those areas of the business, the weakness that we saw this year and kind of anticipated was in that civilian piece, but the other parts of the business are very strong, and obviously, globally, it's still a very key component to our growth strategy in the future. We're not backing down on public sector. We know it was a tough year, but we're really proud of the team that, even in this difficult time, executed as well as they did.

Derrick Wood

Thank you.

James Caci

Thanks, Derrick.

Operator

The final question will come from Joe Vandrick with Scotiabank. Please go ahead.

Joe Vandrick

Thanks. I'll keep it to one question. If I look at the breakdown of ARR, it looks like the Control Suite came down from 28% of the total last year in Q4 to now 26% of total ARR. Can you talk about why the Control Suite net new ARR was maybe a bit weaker than we would have expected, given the AI tailwinds? I think we were expecting to accrue in this segment, and why modernization and resilience came in a bit stronger?

James Caci

I can start that one, and TJ maybe can jump on. I think it's twofold. First is that TJ touched on the improvement in migration and kind of the step-up of customers in their journey of trying to take advantage of AI, really making sure that their data is in one place or as few places as possible. This idea of migrating your data to be able to accomplish that seems to have resonated, and we saw really a step-up of that in Q4, in particular, but really in the second half of the year.

I think that, in general, had an impact on the overall control kind of step down as a percentage, but we don't see that as a real long-term challenge. We think that still governance is key, and we would expect to see continued improvement in that area and going forward. Again, we don't look at this as any kind of indication of what the future holds.

Tianyi Jiang

Yes. From my side, we continue to see fairly very robust demand on the control side for AI governance, as Jim mentioned, because there were more data movement, data migration projects ongoing. Secondly is the average deal size of a control license sale is actually lower than the other modules, but it is our highest margin product due to the type of compute and the type of proprietary algorithm that we have to do that, to essentially making sure Agentic AI, data access, monitoring, that is all taken care of on remediation.

From that perspective, it may look a bit, from quarter-to-quarter, vary, but overall, it is very much what makes our platform very robust and strong to replace the point solution providers. It is that combination of data analytics, integration migration, data resiliency, recoverability, and as well as governance and control. I won't read too much into the percentages. It's part of our platform. We also have seen tremendous success in the way we actually start to bundle the platform as a service for our customers and partners.

James Caci

Then the only thing I would add, Joe, is that overall, year-over-year, it's still growing at roughly 20%, so we're still very proud of that growth rate as well.

Joe Vandrick

Definitely. All right, thank you.

James Caci

Thanks, Joe.

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.

Thank you for spending time with us today. Our results in 2024 is very successful, and we're very proud of our achievement as a team. Also, you have here our growth in 2026, our strong outlook demonstrates our confidence in our ability to continue to deliver profitable growth at even greater scale.

As we lean into today's highly disruptive macroenvironment, and meet the existing and emerging needs of our customers and partners, we see no signs of our momentum slowing down. The value of our platform and enablement of AI-driven transformation for companies around the world ensures a durable, competitive moat, and a vast market opportunity that is ours to capture.

I know I speak for the entire AvePoint team when I say how energized I am for 2026 and the many years ahead of us. Thank you for joining us today, and we look forward to speaking with you more this quarter.

Operator

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