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AvePoint, Inc. (AVPT)

[BEGINNING OF AvePoint, Inc. (AVPT).mp3]

JAMES (JIM) FISH [Moderator]: All righty. Jim Fish with Piper Sandler. Good morning, everybody. Thanks again for joining us. With us we have TJ and Jim from AvePoint. Appreciate you guys joining us here in Nashville.

TIANYI JIANG (TJ): Thank you very much.

JAMES (JIM) CACI: Thanks for having us.

JAMES (JIM) FISH [Moderator]: So, maybe just to set the stage, the question we've been asking everybody here is, as we head into year-end, how is IT spending kinda looking? How are sales cycles? What's the impact of AI on budgets, and how does that benefit you guys?

TIANYI JIANG (TJ): So, yeah, I mean, from a demand climate, it's continued to be robust. What we see, [?it's?is,? 0:00:36.3] last year the theme of the day was token [?maximum?management? 0:00:39.8], and this year the theme of day is agentic AI. But, of course, cost is a paramount concern, as well as risks that AI agents are causing. So, we see very strong demand around agentic governance, agentic management. So, from that perspective, I think from IT budget, these are top of mind for C-levels. So, it's almost a separate conversation.

We do see enterprises are blowing through their AI budgets fairly quickly in the beginning of the year, but that has required a lot more attention now in outcome-based measurements around AI spend. So there's a fair amount of discipline around that. So -- but overall, the awareness around risk and cost management AI, it's really top of mind.

JAMES (JIM) FISH [Moderator]: Yeah. Literally was talking to my own CIO last night about agentic governance. So funny you

bring that up. I guess, how is AvePoint's platform specifically discovering, controlling, and securing data flows for AI agents compared to traditional human access? And as we think about AI use cases, whether it's DSPM, resilience control, which ones are really the... Can we rank kinda the priorities here?

TIANYI JIANG (TJ): Yeah, the good thing is this has been something we've been doing for a decade-plus coming from an enterprise content management heritage, and being able to do this in cloud at scale, firstly to help enterprises manage human access of data. So, the better curation, classification, and cataloging and starting in the regular industry, and then now becoming a very common request in the commercial side in the non-regulated industry because folks are realizing the quality of the foundational data is super important to drive good refinement training and refinement outcome for AI deployments.

So we have -- historically have helped companies manage employee data access, employee sharing, and oversharing IP leakage, and access control, so data security posture management, for example, for all unstructured data in the productivity side, whether it's Office 365, and now [?c- -- there's? 0:02:58.5] Google Workspace. But now with AI, it's really employees operating at machine speed almost, because when you give code an AI agent, by default that agent inherits your entire permission structure, and now quickly folks are realizing that's not a good idea [chuckles] to have something, you know, essentially move at machine speed on your behalf and be able to access all the systems, and all the data you have access to, but then you have no control over how it's been, you know, shared, how it's been act on. That's becoming a problem.

So, the top of mind now is to first discover all the agents running in company environment, including shadow AI by the way. There's a fair amount of that happening where employees are getting their consumer subscription of Claude, and even using Open Claude on devices. Those are b- -- effectively unsanctioned use-cases where corporate data could be leaked back to the model providers, and that's becoming another serious concern. So, effectively the top of mind today is the risk side of it. First, discover what actual risk exposure you have in the first place, and then bring them under management. Bring them, you know, under governance. Shut down the shadow AI usage because the IP leakage consideration as well, and, of course, cost management. So security is top of mind for sure. And then DSPM, security posture management, that auditability

of information access, it's corollary to that, because what we do also is to recover when AI does do specific damage to the internal environment, or, you know, shut down AI access or even, you know, runtime because of this incurring too much cost.

JAMES (JIM) FISH [Moderator]: So, Jim, maybe for you on this in --

JAMES (JIM) CACI: Yeah.

JAMES (JIM) FISH [Moderator]: -- in terms of blending what I've asked here together, how quickly can AI governance, DSPM kind of translate into net new ARR? How is AvePoint selling this in terms of is it an add-on, or is budget being [?graded?created? 0:05:08.5]? Can you walk us through that?

JAMES (JIM) CACI: Yeah, great question. So, specifically about what TJ was just alluding to around agents, we have a product that we recently released for GA back in January, AgentPulse, and we initially monetized it as a bundled strategy in our control suite. So, when you think about governance, we added this agentic AI tool, our AgentPulse tool and included it in the bundles. So, it was not sold separately but really just part of the bundles and it really helped accelerate customer adoption of our bundle strategy. But there was so much demand coming from customers that have a specific agent problem, kind of what TJ just alluded to in terms of I don't even know how many agents are in my environment. And so, before I solve my whole control suite environment, my whole governance strategy, can you first help me identify what rogue agents might be running around in my environment?

And so, we released in July AgentPulse as a standalone SKU. So that's been really popular right now from customers. So, the monetization of that, what we tried to do is keep it very simple. Most licensing for the past 40 years has been seat-based licensing. So, what we did is to reduce friction was we didn't go consumption for all the reasons we just talked about in terms of people trying to budget for consumption. We kept it a seat-based license to make it simple, reduce friction, make it easier for procurement departments to get it through. And that seems to be really resonating with our customers.

JAMES (JIM) FISH [Moderator]: Do you see that standalone versus bundled kind of... How does that mix play out over time do you think?

JAMES (JIM) CACI: Yeah, it's a great point. So, I would say what we see is almost an entry point. So, right now, there are problems in companies' environments where there's an agent or an agent problem where we know there's agents running around in the environment but maybe we don't know how many. We don't know who owns them. We don't know what they have access to. We don't know what kinda security risks. So, there's an immediate crisis for CIOs, CTOs to get a handle on, hey, what's happening with these agents? And so even though they may recognize I have a bigger governance problem with all of my data, I have an immediate crisis with... I may have agents that are really putting me at risk.

And so, the idea of us introducing it as a standalone SKU was to address really that use case, which is how do we affect somebody's immediate problem before trying to solve the bigger problem, they have an immediate problem and can we address that? And the answer is yes. So, we decided, hey, let's reduce the sales cycle, because if you're just addressing one specific use-case and a problem, usually the sales cycle is shorter. And so that's what we've seen so far. And again, that was the driver for really, you know, releasing it in July.

JAMES (JIM) FISH [Moderator]: Got it. And look, that point built, you know, a great business on the Microsoft ecosystem, SharePoint included. You brought up Google just a few minutes ago. How is that entry... We'll call it... It's been a few years now, but, like, how has that kinda gone moving beyond the Microsoft ecosystem? What does the exposure look like today? What could it look like a couple years from now?

TIANYI JIANG (TJ): Yeah, so we have parity now. What we cover for Office cloud is now on Google Workspace. It's really the go-to-market. We recently now got elevated within Google to be their global ISV partner, so their product partner. So, that's a big change for us. That's very encouraging. So, we do have an eight-digit relationship with Google while we have a nine-digit relationship with Microsoft, but the Google side is equally important. We have seen, you know, first half of the year, Google enterprise business making really meaningful inroads into large commercial accounts as well as public sector accounts with Gemini, with NotebookLM as hero SKUs.

And also, we follow our customers, and there's movements in our customer base between the two productivity clouds. So that bodes very well for our modernization capabilities and, of course, then the resiliency and control capabilities for Google Workspace. So, we maintain that route today. It's still just under 10% of our overall mix, but the opportunity is

there. So, the Office cloud estimates just under 500 million user seats. Google cloud, it's about 300-plus million user seats. So, it's smaller but sizable. So, we're actually continue to invest into the go-to-market side of it.

JAMES (JIM) FISH [Moderator]: Got it. And you guys have done a pretty good job around, you know, mid-market and enterprise and moving upmarket. Are there any common denominators that are driving this, you know, increased upmarket momentum around the confidence platform?

TIANYI JIANG (TJ): Yeah. So, we actually started the enterprise, and then we moved down market effectively. So, this year we'll exceed half a billion ARR, but for a sub-billion ARR company it's rare to see a company be able to be successful in enterprise as well as SMB. So, we have achieved that over the last... Effectively since we've gone public on NASDAQ, we really invest into channel, and be able to change the way we go to market. So same technology, but make it frictionless for SMB to consume our services and product.

Specifically for small businesses with less than 500 employees, we are targeting this specialization called managed service providers. So, they're analogous for us to be SMB. So, we never directly touch a two-man or, you know, a four-people company because that's not cost effective for us. What we do is we focus on MSPs as our end customers, and these are basically outsource IT for small businesses, and they will be managing hundreds if not thousands of customers. And then what we did was make it very easy for them to procure our software on a monthly basis, on a pool licensing basis so they can add and drop users at will. And effectively they're using our software to scale their business to improve profit margins.

So, one of our top MSPs, Crayon, now, of course, SoftwareOne, their head of North America. So, for every dollar they invest in our software, it generates \$5 of managed services business for them. And for an entity like that, SoftwareOne, managed services is their highest margin business, right, versus, you know, getting 1% or 2% distributing Microsoft software. So, they're very excited to expand that, and we have a few very large MSPs in that space that's already in the millions of ARR contribution to us, really expanding the SMB space. So effectively that's how we unlocked SMB.

So, for Microsoft, SMB is 40% of their overall revenue. For Google it's even bigger when we talk about Google productivity suites. So, for us now just 20% of our ARR, and it's our fastest growing segment. So, we're very excited to be able to

continue with the strength that we have in the large enterprise and the regular industry but then now really be able to unlock SMB use-cases, the fat tail, we used to call that long tail, but the amount of logo and, you know, number of business in that segment is massive. So, we're able to unlock that with go-to-market through MSPs.

JAMES (JIM) FISH [Moderator]: Yeah. So, maybe circling back to... You brought up, you know, Microsoft 365 and Google, you know, about 800 million-ish seats, let's call it.

TIANYI JIANG (TJ): Yeah.

JAMES (JIM) FISH [Moderator]: Why is it now -- wh-why aren't we getting -- you know, we're only at like, I think, tens of millions up to 100 million, maybe, if you look at some of the estimates out there in terms of penetration around, you know, governance behind it.

TIANYI JIANG (TJ): [?That's right? 0:13:13.9].

JAMES (JIM) FISH [Moderator]: What's the catalyst that kind of moves us from, you know, 10%, 20% penetration rate --

TIANYI JIANG (TJ): Yeah.

JAMES (JIM) FISH [Moderator]: -- to, you know, 50%, 100%? Like, why is it -- why aren't we getting there faster?

TIANYI JIANG (TJ): That's a great question. I think the number one thing -- reason was it used to be customer think that the hyperscalers solve all their problems. Right? When you go to cloud, you know, the cloud vendor is supposed to provide everything for you, but in reality they don't, right? Even this morning, Wall Street Journal reported that, you know, when the AWS data center got taken out during the beginning of the Middle East conflict, they're permanent data loss. But when you talk to hyperscaler, they're supposed to have, you know, real-time synchronization, real-time failover among regional data centers. That's actually not happening, so that's shocking to customers, right? When they're actually using these hyperscaler offering, they realize that the coverage, the baseline coverage is very, very thin. So, when you actually need to have the proper governance and control, and -- they're severely lacking. So fundamentally, the value we provide to the market, it's also orthogonal to hyperscaler's interest, almost, right?

First and foremost is we actually help customers maximize their investment into their cloud. So, if you leave it to hyperscalers, they will want you to buy the most expensive licensing for every type of SKU you have. Shocking, right? [chuckles]

JAMES (JIM) FISH [Moderator]: Yeah.

TIANYI JIANG (TJ): But most customers of course are smarter than that. They have a blend licensing. And, for example, in Office 365 context, there's E1, E3, E5, now E7. Most customers -- You know, E5 SKU has been out for a number of years. The penetration is still just 20%. So vast majority of customers have E3 and E1 licenses. E1 is basically a kiosk license. [?You only have? 0:15:03.8] -- The worker doesn't even have a laptop, right? It's just a mobile device. And the E7, of course, you know, your C-suites can use it. So, how do you actually have the consistent data governance and control and resiliency across all these license types? It's a problem that we solve. The hyperscalers, it's not in their interest to solve, right?

Secondly is customers are multi-cloud today by definition. And because of that, we also, you know, support multi-cloud, but that's also not in hyperscaler's interest to support other hyperscalers. So that competitive dynamic always exists, right? Google will not help Microsoft. Microsoft will not help, you know, Amazon. So there lies the opportunity for us to be a value-added provider for our customers to make sure that it doesn't matter where their data and applications and agents reside in which cloud infrastructure. They're covered, right? Have that consistency. So this is why there's always space for third-party ecosystem player like us to provide a better value for the customer.

JAMES (JIM) FISH [Moderator]: Yeah. So you brought up where I want to take the conversation next, which was competition and, you know, there's been a lot of moving pieces in the space between governance, backup, resiliency, those types of things. What's going on competitively, and why is AvePoint growing at the rate it is versus kind of the others out there?

TIANYI JIANG (TJ): Yeah. So firstly we focus on very much profitable growth. So we feel that we need to be disciplined as we grow and still maintain very healthy and expanding margins to, you know, be cash-generating, to be ready for anything that the market may bring, right? The market's quite volatile. So, making sure that we have profitable growth is key to us.

And, secondly, we don't have a holistic competitor. We come from an enterprise content management background, so we view information management from birth to retirement as a continuation of a problem set, right? So it's not a -- just a resiliency or backup problem. It's not just a governance problem. It's not just an integration migration problem that historically industry is set up to do. So there's these industry silos. Right? There's also different players in enterprise versus SMB, and different players in different regions.

So, because where we came from, we target large enterprise, and we went global because of the high-touch requirement, and then we went to cloud the earliest in the Microsoft cloud space, and now we're multi-cloud. We feel that we have the end-to-end story. We do see that our competitors start to map that way. So, you see a lot of the backup vendors start to gravitate towards the security side. I know most recently, because it's very topical, start gravitate towards the governance side. Even governance players, I think yesterday Varonis came out with a storage, you know, solution. They were never in storage ever before, so now they're in. So, it's good to see that, what we call, you know, point competitors are recognizing the importance of the end-to-end information management story to better enable AI, right, because your AI is only as good as your data.

So that's how we felt we have always been different, that we have a singular cloud-based platform that does all of it, and it's more of a holistic approach. So, we do have point competitors, and we're different point competitors in different space also, enterprise versus SMB. We feel that we're uniquely positioned now that we're public, we're very profitable, strong balance sheet, we can scale. The next iteration of our evolution is to really scale globally, be successful at large enterprise as well as SMB, and handling the whole end-to-end information management problem set, of course, AI management problem set for our customers.

JAMES (JIM) FISH [Moderator]: Yeah. You know, obviously, you brought Microsoft's own E1, E3, E5, E7, but you guys have your own kind of upsell iteration as well with Plus and Complete. How's that upsell motion working out for you guys, and what features, or functions are really resonating with customers that move them off the essentials package?

JAMES (JIM) CACI: It's not just essentials too. Like, it's across suites, too, is really where we see the movement. You

know, many customers start with us. The beauty of where we sit right now in providing a platform is there are many entry points for a customer to join the family. They can maybe start with a migration product if that's the issue they're dealing with, or it may start with AgentPulse. Maybe they're dealing with a specific agent issue that they're trying to wrap their head around. Or it may be backup, maybe something as simple as they need to back up their environment, in the example that TJ gave earlier. So that, for us, has been really the beauty of being able to solve multiple problems across the dynamic. And, you know, for us, you know, our upsell motion doesn't come from selling more seats. It's coming from that cross-sell motion in terms of providing additional solutions. And really the biggest avenue comes from multiple products. I'm selling you something today, maybe in the backup environment, and tomorrow I'm selling you the governance solution that goes hand in hand with that backup. And then, again, maybe now it's agents being involved. So how are you governing those agents?

So, that's really been a really solid motion in terms of what we're seeing in terms of growth for existing customers. And as you would expect, you know, we have customers that have been with us for a long time, and as they spend more time with us, they consume more products, they grow with us. We like those cohorts. We're seeing significant improvement when we look at a customer who stays with us.

TIANYI JIANG (TJ): So I just want to highlight that. Again, playing to our strength, right? This entire information management story is a singular story. So, for example, now in Microsoft Claude, they have this, like, new agent capabilities, Cowork. So every time it touches a file, it creates a new version of the file. So [chuckles] -- you know, agents will touch files at machine speed, right? You all of a sudden have a thousand versions of the same file, and the storage in Office Cloud is actually very expensive. It's not the same cost as Azure storage. So, we actually have, already, solutions that help customers in real-time optimize storage costs by removing older versions, out of date, you know, based on policies, content in real-time.

So, we actually have a, you know, basically storage ROI for our customers, and, of course, we also have license management ROI for our customers. So, these problems are also related. It's not just a backup conversation, or archiving conversation, or storage optimization conversation. It's also risk management, right? When AI does some damage, you'd be able to recover very quickly [?at the? 0:21:56.9] entire, you know, cloud environment or down to a singular file, you know,

granular level or permission structure level. So, we think that because of these are very much interrelated problem sets now, you know, exacerbated by AI, it positions us very well as a singular end-to-end platform provider.

JAMES (JIM) FISH [Moderator]: Yeah. And maybe just around customer expansion, [?look?like? 0:22:21.5], you guys have been doing a phenomenal job on churn, and right now your net expansion rates were around 110. What gets it to 115? How do we think about that 110 breakdown between, sort of, data growth, cross-sell versus upsell at this stage?

JAMES (JIM) CACI: Yeah, it's a great point. I think any -- when you think NRR, you think of that existing customer growth, I think it starts with your gross retention. So right now, our gross retention is standing around 89%. We think with some of the measures we have in place, that continues to grow and gets into the low [?90s? 0:22:56.3]. So we think there's at least another two points here over the next year or two where we can get that 89% to 91%. And that includes our migration products, which as you would imagine, right? If you're doing migration, it generally has a start and an end. So, we include that in our GRR. If we excluded that, we pick up another two points just by excluding migration. But -- but including it, we think we go from 89 to 9. So those incremental two points flow into your NRR.

So immediately we think the 110 goes to 112, really without doing anything else other than retaining the existing customers there, improving that retention. And then some of the things you talked about in terms of our cross-sell motion across these platform -- this platform that we have, we think there's a great opportunity to continue to [?motion? 0:23:45.2]. It's not really gonna come from an increase in seats. That's not where we see most of the expansion even today, or even for the past several years. Most of our expansion is coming from incremental products consuming more of the platform as opposed to more of one SKU. And we would expect that to continue, particularly with the number of products we see coming to market today and also what we're expecting to deliver in the future.

And the oth- -- the other thing we're doing, you know, a better job of today than we did five years ago is bundling. So, we used to essentially sell products as individual SKUs within the control suite. We're doing a much better job today of bundling solutions so that you're buying not just a single product, you're buying a solution which includes several products. And so that really resonates not only our own

salespeople being able to sell it, but customers being able to consume it, because the end result for them isn't buying a product, it's buying a solution.

JAMES (JIM) FISH [Moderator]: Right.

JAMES (JIM) CACI: I have a problem I'm trying to solve. How do you best solve that? And what we're finding more and more, it's a bundled solution. So those bundles have higher price points, which are then generating more profitability, more NRR for our existing customer base. So, those are the key drivers that are gonna move us to that 115, our longer-term target.

JAMES (JIM) FISH [Moderator]: Literally, I'm going to have to call you Steph Curry here as you hit the shot clock here as [?they? 0:25:04.0] tick down to zero on the nose. So, awesome insights, guys. Good luck on the billion-dollar ARR goal and -
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JAMES (JIM) CACI: Thank you.

JAMES (JIM) FISH [Moderator]: -- and 27% margin target that you just outlined.

JAMES (JIM) CACI: There you go.

JAMES (JIM) FISH [Moderator]: Yes. Thanks for joining us, everybody.

JAMES (JIM) CACI: [crosstalk 0:25:15.2]

TIANYI JIANG (TJ): Thank you.

JAMES (JIM) CACI: Thanks, everybody.

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