AvePoint

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Roger Boyd: We'll get things going. Thank you all for joining. I'm Roger Boyd. I cover cybersecurity infrastructure here at UBS and it's my pleasure to introduce the team from AvePoint here. To my right, Dr. TJ Jiang, CEO. Jim Caci, CFO. And at the end -- or sorry, I missed that, in the middle is Mario Carvajal who is Chief Marketing Officer and Chief Strategy Officer. Thank you, gentlemen, for being here.

TJ Jiang: Thank you. Thank you for having us.

Roger Boyd: TJ, maybe we could just start, I think more and more investors are understanding the story, but can you just give a quick overview of what AvePoint does? The key pain points, problems that you're solving for customers?

TJ Jiang: Yeah. AvePoint has been -- I co-started the business over 20 years ago out of Somerset, New Jersey. We're really focused around data management, governance and security. Our background is in the enterprise content management space where we started focus on regulated industry, government, banks, and in this platform Microsoft calls SharePoint. And we became the first to invest into Microsoft Cloud. SharePoint became the fabric for entirety of Microsoft Office. That allowed us to expand our total addressable market to include entirety of office, so data governance, lifecycle management, security, and protection.

We've been doing SaaS data management and governance for 12+ years and we have also expanded into multi-cloud to cover Google, to cover Salesforce. Today we run one of the largest SaaS platforms out there covering 500 petabytes of data on databases, 18 instances around the world. And we're quite global as well. 45% of our revenue is North America, 30% EMEA, rest in APAC. And we also are successful because of the classification of our solutions to be able to then not only go after large enterprise, government, but also small businesses, which is now today half of our recurring. We're uniquely set up to be really global at our sizing. We're truly taking advantage of our ability to be a multinational corporation and be able to really scale the growth.

Roger Boyd: Got it, very clear. Maybe, Jim, from your perspective coming off 3Q results, just a recap of the financial performance. What stood out in your mind?

Jim Caci: Yeah, great question. Maybe we'll break it into maybe 3 components kind of thinking overall at first. Very strong quarter, really good performance. It's the seventh straight quarter that we've exceeded the expectations that we've set. And we also, in addition to that, we were pleased to again raise guidance for our expectations for Q4. Overall, that's been good.

We've also had a couple of other nice key metrics that have improved. One is our gross retention rate, taking up a percentage point to 88%, so we're pleased with that and the execution that we're doing around that. And then second is really our cash flow in terms of we generated over $56 million of operating cash in the first really 9 months of the year. Again, really strong performance there.

And then when we think about growth, for the year we're standing at ARR growth of 23% year over year and revenue growth is 22%. And if we think about within revenue, we're actually growing our SaaS revenue at 45% year over year. Growth has been really strong this year. And then when we think about operating efficiency, we've improved our operating profit for the year, really focusing on improving our efficiency. And that really comes down to across all 3 buckets when we think about sales and marketing, G&A, and even R&D. And so we've been really strong there improving operating margin. Again, it's been a strong Q3 and really a strong first 9 months of the year.

Roger Boyd: Very clear. Maybe to zoom out, TJ, I think one of the themes floating around the conference this week has been maybe a slightly better demand environment. I don't want to lead the question, but I'm curious, in your words, kind of what are you hearing from customer conversations? How are you thinking about 2025 priority areas of spend and how that lines up with your platform?

TJ Jiang: [inaudible - microphone difficulty].

Roger Boyd: Got it. Okay. Maybe for Mario, what's been the marketing message around the platform? And I think to what TJ is saying, there's been a lot more interest in data security, data governance, data protection. Just what are what are you doing on your side of the business to drive some of education there and how much do you think is that coming to you right now?

Mario Carvajal: Yeah. It's a great question. As TJ mentioned, I think maybe the first thing for everyone to understand is we've been doing data governance for over a decade. The principal design of the platform was to look at unstructured data. Especially when organizations are using a lot of productivity systems like M365 or if you're using Google Workspace or you're using any sort of data service provider. And our goal was to provide all of the capabilities that allow you to monitor the environment, understand the changes that are happening, think about the access control layer, and ultimately, be able to deploy the right policies on your data. It's difficult to do that when you don't have a single view of the entire environment, so we have the benefit that when you connect our platform to the environment, we can see all those signals. We ship the product with the ability to do an analysis. It helps you understand a risk score. It tells you have exposure of data in this area, you have external contractors that maybe have still access to information they shouldn't have access to. And so those are the kinds of signals that are really important for organizations.

But we take it a step beyond that. We also make recommendations in the platform that truly automates the experience for the client. And that means that it really just requires you to do an analysis. A lot of CISO's work with us, and they identify where they're at risk. They deploy the policies and they really create a security layer that really helps them govern the data as it continues to change, because unstructured data is constantly changing.

Our message from a marketing perspective since we became public is really that we tell the story of data security end to end. We do it at the container level. We do it at the data level. We do it at the user level. Where a lot of organizations that say they are providing data security really are just single lane. And I think that that experience is also helping us do a lot of cross help and upsell to our clients.

And then the last point I'll make is, we also have brought this entire technology stack to the hands of our partners. Now there's a lot of partners, the managed service providers that are taking over the IT operations for businesses. What they ultimately want is a system that also allows them to manage all their customers. We streamline those capabilities and make them very simple for the managed service providers to use, and that allows us to use the power of the channel, which is really a force multiplier for us to get to market.

You'll see more from us regarding how we think about data security. I think it's interesting that governance now is top of mind for every CIO and CISO. And as TJ just mentioned, if the quality of your data is poor, you're not going to be able to modernize the data to be ready for this frontier we're in, which is the GenAI perspective.

And then the last thing is, there's also governance of what's going to happen with AI agents, which is the next step we're taking in the platform. And so that story for us will continue. It's a very unique story and that's hopefully what's starting to resonate more and more with the market.

Roger Boyd: Yeah, I wanted to push on AI of course, but I mean, how are you thinking about the AI opportunity holistically as a company? And when you look at your customers, are we at a point where you're seeing them start to deploy AI across the enterprise? Is it more still an experimentation phase? How do you see that playing out over the next year? And then kind of back to the platform, what products specifically do you see benefiting from the broader push in the generative AI?

TJ Jiang: Yeah, I'll first say that our execution so far is not really dependent on this whole AI trajectory. But in terms of your question of adoption rates, we have 10s of millions of users on our platform already today and we actually have a pretty -- and it's quite global, so we have a pretty good sampling of the actual adoption rate. I would say that Microsoft, specifically Microsoft Copilot, 1.5 years out since preview, in terms of total number of user accounts, adoption rate is about 3% to 4%. However, 70% to 80% of the enterprises are doing active experimentation.

We have seen a few enterprise-wide deployments which we announced, shared in our earnings prepared remarks where we actually help enterprises, one of the largest banks in New York City, that went to copilot. But before that, they had to deploy our governance solution to do that. We'll see. We expect to see more of that going into next year, but again, as I mentioned earlier, I think the real kind of economic uplift, the revenue uplift, will probably happen in the second half of next year.

Roger Boyd: Makes dense. Maybe to shine a light on another area of the platform, the resiliency suite includes backup as a service and I think some investors view that as a potentially crowded space. Can you just talk about maybe who you compete with? And then from a technical standpoint, where does your product line up? And when you a customer focused on just buying that backup space, how do you differentiate?

TJ Jiang: Yeah. It's always been a competitive space. Pre-cloud days, you had organizations that have dedicated backup teams. But now with going to cloud and multi-cloud, the teams are much more centralized to actually manage overall digital transformation, overall cloud assets. So it's actually mixed together, which presents a massive opportunity for us.

We're actually the first to have invested into Microsoft Cloud. We've been doing the SaaS solution for data management, governance and security for 12 years, and so we're the first to market with a SaaS solution for backup. We're the first in Fed ramp certified datacenters. We're the first to offer ransomware detection and recovery. And also, because of our profile in the Microsoft ecosystem as one of the largest enterprise-grade SaaS providers, we actually sit on the Partner Advisory Council. We actually see product roadmap ahead of time, so we're often the first to release new products that go -- essentially release partners with Microsoft. Most recently, in July when Microsoft released for example Microsoft cloud storage capabilities, we were the first launch partner to go. That enabled us to offer for example snapshot capabilities to backup data 20 times faster than traditional backup methods in the cloud.

We will use those new capabilities when they come. We've always been the first to do it. But I would say the power of our overall platform is our strength is really the platform play, Our story doesn't begin and end with backup. It actually began with data analytics, data integration, migration, and then backup, archiving, storage optimization, and then document management, record management and then lifecycle and then of course governance and security. Because of that, we don't have a singular competitor. You asked about competition.

Specifically to backup as a service, again, as mentioned, we actually back up 500 petabytes of data on databases today for 21,000 customers and that's growing very nicely. And on the backup side in enterprise segment, we have -- and we have different competitors in different segments. Enterprise for us is 5,000 employees and above. We see some folks like Commvault or Rubrik. But in the SMB segment we see folks like Veeam or Acronis.

And then in the governance side in enterprise, we run into sometimes Varonis. In SMB, it's more startups. And of course, we also have modernization, which is data analytics, integration, migration where we see really legacy guys like Quest Software or sometimes Informatica. We have point competitors, we don't have a holistic competition. Because of that, as customers are looking to consolidate platform vendors and as they want to then rely on enterprise-grade solution providers, this is how we really shine through.

Roger Boyd: Yeah. Makes sense. Maybe just to round out the competitive conversation, Microsoft has obviously been a huge partner for you guys. At the recent Ignite conference, they continued to add to the Purview products. Give us a sense of how you think about that coopetition type relationship, where you kind of overlap, and where you potentially make Purview better.

TJ Jiang: Yeah. We've been an important part of the ecosystem for 20 plus years. We don't compete against Microsoft. We compete within this multi trillion-dollar Microsoft ecosystem. So you're absolutely right, it's that coopetition. We often say it's like dancing with elephants, you have to move faster. We actually work with Purview, so to the extent that customers have Purview, when you have E5 license, we actually leverage the tagging and classification to make things faster. Just like I mentioned with for example the self cloud storage. But Purview itself is very coarse. Also, when it comes to real time risk level reporting, it's like a 28-day period. There's no real time. There's no granularity. There's also no end user capabilities. It's limited to very, very few superuser admins to do the work. Which actually led itself to inability to scale for large organizations across multi-tenants. For example, we have a customer, WPP, one of largest advertising companies in the world. They have 10s of -- because of M&As and etc., they have multiple 10s of tenants. So in that case, it's actually very hard to use.

What we do is, our solution, whether you have or don't have Purview, we work with customers to do that. We can look at, scan content and classify tags. And also, we have the granularity, end user enabled, sustainable governance framework in play that's all automated. Again, enable better Copilot rollout. And lastly, I would say it's multi-cloud. All customers are multi-cloud by definition today, so Microsoft only really just covers the Microsoft stack. Where we have customers that are Office of Microsoft, CRM of Salesforce, and then of course compute is AWS. So in such a type of hybrid environment, this is where we also provide incredible value to offer holistic governance and security capabilities.

Roger Boyd: Very clear. Jim, maybe to come back to the financial side, you talked a little bit about the profitability in the quarter. I think sales efficiency was one of the points you called out as being pretty strong. Just what's going well there and any other drivers you can call out to support the upside on margins?

Jim Caci: Yeah. I mean, it's a great point. When we think about operating efficiency, it's not just about sales and marketing. At our Investor Day back in March of '23, you may have heard us speak a lot about profitable growth. And the key there was we wanted to grow, but we wanted to grow responsibly and we wanted to do it profitably. And so when we think about that, it's across all lines. It's improving our gross margin at the top line, but then it's also improving sales and marketing efficiency, it's improving G&A efficiency and R&D.

When we think about R&D, we've got a global deployment and development team and we're taking advantage of the global scale of the business and that's really helping with cost optimization in our R&D. And when we think about G&A, we're now 3 years out from going public. And when we think about those initial costs of being a public company, they're pretty steep. We've been continuously seeing the scale and the efficiency driven in our G&A over the past 3 years. and we're going to continue to see that happening going forward.

And then on the R&D front, we committed that we'd be spending about 10% to 15% of our revenue on R&D. And right now we're at about 12% and have been for the past 2 years. That seems like a good sweet spot for us, particularly as we think about our global force. And again, I think that gives us the ability to be operationally efficient, but also continuing to invest really the lifeblood of the company, which is developing new products. And so again, that's our focus. And when you combine all of that, it's really led to a nice healthy profitability in Q3. Which for us in Q3, we reached 20% non-GAAP operating profitability really driven off of the strong operating efficiency. And we saw from our sales and marketing point of view, we reached a 30%, essentially 31% of our revenue, in terms of where we ended up for the quarter. And our long term goal is 30%, so we're pretty much seeing this nice continuous trend getting toward that long term target. So again, we feel good about it. We think there's still room to improve and work to be done, but that's led to the really good quarter.

Roger Boyd: How do you think about investing against that kind of bumping up against the long-term targets there? And I think the 4Q guide implies operating margins maybe slightly down from 3Q. What's embedded into those assumptions?

Jim Caci: Yeah, it's a great point. And for us, our costs that we incur over the course of the year don't necessarily happen linearly, particularly in sales and marketing. If you think about our marketing spend, we budgeted for the spend for the whole year. It doesn't necessarily mean it's $1 in Q1, $2 dollars in Q2, so it's not necessarily linear. But what we're seeing in Q4 is that it historically is our largest spend quarter and we're going to see that continue this year. And also, when we think about our marketing spend, it happens, so happens that Q4 is our largest marketing spend quarter. So again, those factors really contribute to the higher spend in Q4 resulting in a little bit lower operating margin. But again, that's what we had planned the whole year so it's not a surprise. Pretty much on target. I mean the overall take away for me is we're pleased that for Q4, compared to our Q3 guidance, the implied Q4 guidance when we did that in Q3, we're raising that guidance by $1 million for Q4. Although you're right, it's lower than Q3, that was the plan all along and we're happy to be raising guidance.

Roger Boyd: Very clear, good point. Maybe just to stick with the reported metrics from the quarter, gross retention I think stood out. It's been 87% for a number of quarters and it picked up a point. Maybe a question for all of you, but what do you see as the drivers of that and how do you think about gross retention from here?

Jim Caci: Yeah, it's a great point. Just to remind everyone, our long-term target on GRR is to get to 90% plus. You're right, we were kind of stuck at 87%. It's been a focus of the company. We've got a lot of effort put into improving gross retention rate. We did see a tick up a point this quarter. Really good to see that. I think there's 2 things to point out that maybe give some additional color around that. The first is, when we think about our CS Team, our customer success team, we've got them dedicated on certain customers. Customers above a certain spend level have a dedicated CS Rep. And then there's a group of customers below that that don't have a dedicated CS Rep, they have a more pooled resource concept. And so although individually those accounts are not maybe significant, in the aggregate, it's a fairly large pool and cohort. We've spent a lot of time this year of trying to figure out how do we deliver for that group the same level of experience that they get from the dedicated CS? We've used this pooled concept. We've used a lot of technology, really trying to ensure that those customers are fully enabled, fully getting the full value out of the platform that they signed up for. And what we've seen as a result of that commitment is that that group's cohort, or that cohort, the GRR for that cohort has improved fairly significantly over the 9 months. That's been a contributor to the improvement in GRR. We're pleased with that. We're doubling down on that. We think that's a cohort that can continue to improve and we're going to continue to invest there.

The second piece to point out is that for us, we have a product that's migration. TJ referred to it earlier. And that product by its very nature is a more project-oriented product. You have a migration project, you have a start and a stop. Now that project may take multiple years to complete. You may have multiple projects back-to-back. So the product does renew ,which is great, but it renews at a lower rate than the rest of our business. When we look at that group, people often ask, well, what's your biggest contributor to your GRR or your churn like going from 100% down to this 88%? Well, of those 12 percentage points, 4 percentage points are related to migration. If we were not in that business, which it's a healthy business for us, it leads to lots of opportunities, so we want to be in the business, but that makes up 4 percentage points of our churn. We would give a 92%. I think that's just good context hopefully for everybody in terms of how we think about it. Now we, again, still think there's room for improvement and we're continuing to effort that and we feel really good that based on the progress we've made so far, we can get to that 90% plus.

Roger Boyd: Great. TJ, another big theme coming out of the conference is opinions on the federal government as a customer. And I think that's maybe your top or your top 2 verticals for you. What's your perspective being a primarily seat-based revenue model about potential changes to government efficiency, headcounts? I think the alternative is if there are headcount reductions, the spend is going to increase in other areas like technology, and how could that potentially be an opportunity for you?

TJ Jiang: That's exactly right. Public sector as a whole globally for us is just over 1/4 of our total revenue and that's U.S. government, Singapore government, Japanese, Australia, New Zealand governments, etc. And in North America, it's also about 1/4. Now within that, we actually have 3 revenue streams. They're state and local, that's not changing. There is defense, that's not changing. If anything, it is increasing. And it's really the federal piece. The federal piece we, again, we actually see more emphasis around adopting more technology if anything. So while there may be some headcount reduction, that remains to be seen. We actually see that the opportunity to uplift more tech into that space, especially with this government datacenter, with more push towards GenAI capabilities, there's lots of opportunities. When you analyze it from that perspective, it's a slice of a slice of a slice. It's not really that meaningful. And also, we've been through multiple administrations and multiple recessions and this is actually no different.

Roger Boyd: Got it. A two-parter, but first got TJ, just I think the balance sheet in a pretty good spot. You're generating cash. How do you think about M&A and maybe the build versus buy kind of framework? And if you did look at M&A, are there particular areas of the platform that that makes sense to jump off from there?

TJ Jiang: Yeah. We have a healthy balance sheet. We're cash generating, we have no debt. And we did 4 small acquisitions the first year we went public, and then we waited because we waited for the multiple expectations to come down. And as interest rates remained elevated, that has happened. We have a very active M&A pipeline and we have a dedicated team to focus on that, so you'll hear more from us. The 3 areas that we're focused on, one is the MSP. That's our fastest growing segment. It's also our way to unlock SMB, which is a massive long tail, high margin business. There we think there's massive opportunity to both organic investment, you will hear more new product releases in the coming months, as well as inorganic expansion, to be even more mission critical. Jim talked about this before, for the MSPs who are actually not a call center, but a revenue generating center, because they leverage our solution to scale and be more profitable.

And the second one of course is multi-cloud. We're stepping up our relationship with the other hyperscalers and you will hear more about that in coming months as well. And we're very excited about that. Just to give you context, the combined user population between Microsoft Office Cloud and Google Workspace Cloud is just shy of a billion active paying business users. So that's a massive market to go after.

And the same pains that we already saw and have massive credibility in the Microsoft Cloud exist in the Google Workspace Cloud as well. As well as Salesforce Cloud. The multi-cloud flavor, we already have products support those. Of course to -- and meaningful revenue. But to actually go faster, there are opportunities to acquire some existing players in those domain leveraging our enterprise grade capabilities and go faster.

And then the last area is governance and security. That's a key that Mario talked about. We actually collect a ton of data per tenant even for small businesses. We have about at least minimum one terabyte of signal data that we collect. While we do ransomware detection and also recovery, oftentimes the attackers get into the environment well before the attack happens. We actually have those data, so a lot of customers ask us, hey, can you help us with forensics and even earlier detection and remediation? That's a very fertile opportunity for us to expand into, so both organically as well inorganic expansion.

And I'll just finish by saying another thing is that while we're at this size, it's very rare to see that we are truly, this size company, truly multinational. We will leverage our capabilities and we're sourcing deals and sourcing targets globally The first 4 acquisitions we did was one in South Korea, one in Canada, one in Singapore, one in UK. And you'll see that as we continue this trend, we are able to again leverage our global presence and be able to source really good assets, not in a single country.

Roger Boyd: Very clear. Maybe to round it out, Jim, where does M&A kind of fit into the broader capital allocation structure and how do you think about the priorities there?

Jim Caci: Yeah, we really have 3 pillars in our capital allocation strategy. First and foremost is to continue to invest in the business. We've got really successful teams around the world that are executing. We want to make sure they have the resources, the technologies to be able to continue to execute. That's first and foremost, we're continuing to do that.

Second is M&A. TJ just highlighted it. That's clearly a focus. We've got a team dedicated to that, so we do think that can be an accelerant, so that's a focus area for us. And then third is share repurchases. We have $150 million approved repurchase program that we initiated almost 3 years ago now. We've spent about half of that, so we do have some dry powder there as well to continue to do that. But that's how we kind of think about the 3 different, as we think about capital. And to your point, we're sitting on $250 million of cash, significantly cash flow generating, so I think we're in a good spot. Our options are open and we're continuously evaluating opportunities.

Roger Boyd: Awesome. I think we'll wrap it there. Thank you, gentlemen, for joining. And thank you all for sitting in. Great, great chat.

TJ Jiang: Thank you, Roger.

Jim Caci: Thank you, Roger.

Mario Carvajal: Thank you.