AvePoint, Inc.

December 3, 2024
08:45 AM PST

Andy Nowinski: Good morning, everyone. My name's Andy Nowinski. I'm the software analyst at Wells Fargo, and it's my pleasure today to introduce you to T.J. Jiang, the CEO of AvePoint, and then Jim Caci, CFO of AvePoint. And we also have Mario Carvajal here, the Chief Marketing Officer, and Jamie Arestia from Investor Relations. So we have about 35 minutes today. If there's any questions in the audience, please feel free to just raise your hand. We'll get a microphone to you as well for the webcast, for those listening in on the webcast. I'm happy to weave in any questions you have.

So T.J., why don't you start, for those that are here that may be unfamiliar with AvePoint, why don't you start by just giving us a quick overview of AvePoint and the problems that the platform solves?

T.J. Jiang: Sure. Good to be here, Andy. Thank you. Yeah, AvePoint's been around for 20-plus years. I co-founded the company with Kai, who is now the Executive Chairman of the company. We started in the data management, enterprise content management space. We were the first to really invest into the Microsoft Cloud ecosystem, so we were the first SaaS software-as-a-service enterprise-grade data management platform provider. Today, we're one of the -- we think we're actually the largest -- Microsoft ecosystem player when it comes to SaaS data management, governance and security.

And this is a space that we've been doing for two decades-plus. We started by focusing on public sector, financial services, really regulating the industry that care about, you know, who accessed the data, how to retire those data, how to classify label, so when you do searches the proper things come out. But of course now with gen AI, everyone wants to deploy some sort of gen AI capabilities, especially Microsoft Copilot. It became a very hot topic that all industries now want to make sure they recognize that this whole data governance and management and security is fundamental prerequisite to actually deploy good AI capabilities.

So another unique aspect about the company is that this year, about just over $320 million revenue as well as recurring revenue. We're very global. 45% of our recurring is in North America, and then 30% in EMEA, the rest in APAC. So that's, again, because of our traditional focus, our regulated industry, we have to be local presence and have that capability. So today, we're in 18 countries. We actually touch and manage 500 petabytes of data on a daily basis with over 80 instances around the world with our SaaS software.

Andy Nowinski: That's a great overview. Thanks. Jim, this morning at breakfast we were talking about really good Q3 results. The stock certainly reacted positively after your earnings call this quarter. Maybe if you could just give us a quick overview of what are the highlights from that results that investors clearly liked?

Jim Caci: Yeah. You know, great question, great point. I'm glad you give me the opportunity to kind of elaborate. You're right, we had a very strong quarter. Very pleased with the quarter, very pleased with our team's execution across the globe that T.J. alluded to. We're obviously a global company, and we saw all three of our regions performing, both North America, EMEA, and also APAC really performed really well. So again, really pleased with that overall performance.

You know, it's our seventh consecutive quarter of overperformance, essentially exceeding the expectations that we set. And so we feel really good about that. And then again, we're actually raising our guidance for the full year, so we've been doing that essentially every quarter, and pleased to say we're doing it again, or we did it again, at the end of Q3. So again, we're pleased with the ability to be able to do that. And then when we think about really where we're headed, there were some other key metrics that performed really well. GRR has been a focus for us this year, and we were pleased to see improvement in that GRR metric by 1 percentage point, up to 88%. Again, that's been a focus, so we again, pleased to see that continued improvement.

And then when we think about growth overall, we saw our ARR grow 23% year-over-year. So we're again pleased with that sort of growth. Revenue grew 22%, again, very pleased with that performance. And then within revenue, our SaaS revenue grew 45% year-over-year. And then a focus we've had all year, really for the past two years, is improving our operational efficiency. And again, that was really strong performance in Q3. We saw nice performance across the board in all categories from sales and marketing, G&A and R&D. We saw nice efficiency, leading to the first time we've achieved GAAP profitability in Q3, and actually achieved GAAP profitability for the full 9 months of the year, which is actually a year ahead of the scheduled target date for us to be GAAP profitable.

So you know, again, as you said, it was a really strong quarter. We're really pleased with the quarter. I think it's -- it's a lot of effort that obviously the teams have been executing, and again, we feel really good about it. And we're pleased to be raising guidance for the full year, so again, strong quarter.

Andy Nowinski: Yeah. It sounds overall very strong. I mean, did you have any sort of, you know, customer consternation perhaps heading into the election? You know, a lot of uncertainty around the election, and I'm just kind of curious, like, did that hold anything back in Q3? And T.J., maybe for you as well, how have your customer conversations changed post-the election? How are they thinking about spending, if differently than they were prior to the election?

T.J. Jiang: Yeah. I mean, AvePoint has been around for 20-plus years, so we've seen multiple elections, and multiple recession cycles, and we have consistently focused on profitable growth. This is no different. The problem sets that we address are relevant to all enterprise, regulated industry, namely to make sure that your data status is well governed and secured and protected. So it doesn't matter which side of the house, administration, which side of the aisle, you know, the White House, the same concerns are still there.

So in fact, Q3 was our biggest quarter for the public sector, so we almost over a quarter of our global business is in the public sector, in North America it's about the same. And public sector's fiscal year end is actually Q3, so Q3 and Q4 are big quarters. Q3 is really public sector year-end and Q4 is the commercial enterprise. So we continue to do well. It's regardless of the administration change. I think technology and the focus on productivity remain the core for all businesses including government.

Andy Nowinski: Got it, okay. So maybe shifting to your platform, some of the product level questions around data protection, data governance. I guess what are the highest areas of customer interest you're seeing related from a product perspective? Is it the more around you know, like governments and data security? Have you seen any sort of change of that, and given all the I guess rollout to Copilot that we're seeing in gen AI? I would imagine there's more of a focus on data protection now as you roll these models out, or organizations try to roll them out.

T.J. Jiang: Yeah. So what we see, first we think we're very unique in the market in that we do have a truly singular platform for information management, that's fully SaaS. So that start with data migration integration, what we call modernization suite, and then that goes into business continuity, the resilient suite, so that's data backup, data archiving, storage optimization. And then we go into control, which is governance, so access control and life cycle analyze management. So the way we tailor the product suites is to actually pre-COVID days, is to follow a customer's journey into cloud, right? You first start data analytics, and migration and of course you do the backup and archiving, and then you do the proper information control. But since COVID, and then of course now gen AI ,the focus for customers is really around governance and security because all of a sudden everybody jump on the cloud very quickly. That was COVID effect.

And then of course with gen AI it's that everyone moved to cloud much faster. I'll give you an example. In Japan it's our second largest revenue country, right after US, and historically, Japan is always a few years behind in technology adoption, at least two years. Whether it's mobile, social media, etc., and then cloud. But now, we see them for the first time, they're moving as fast as anyone else when it comes to gen AI experimentation, and that led to a massive also migration into cloud, because folks now realize, one, this technology is strategically important, and two, all the latest happening is in cloud first.

So those are some of the game changers. So we see the focus around governance and security to be paramount.

Andy Nowinski: I definitely want to get into gen AI and dig deeper on how you guys play there, but maybe just to wrap this up on the product side, on resilience in backup, I think are also pretty interesting areas. There's a number of companies here that talk about both data backup and data resilience, and resilience is not just recovering from like, a cyber attack, but we've seen a massive increase in ransomware attacks and trying to recover from that. So I'm wondering, as it relates to your resilience play, like, how do you -- when you go to a customer, I guess, how do you -- how do you differentiate between the traditional backup vendors and maybe more of the cyber resilience vendors like yourself that do more than just --

T.J. Jiang: Yeah. So it's always been a competitive market. We're the -- because we're the first to invest into cloud, so we were the first to provide SaaS backup service for MCC5, and then the first to actually be FedRAMP certified in the government data centers, first to offer granular high speed user-enabled resource and of course also first to do ransomware detection and recovery. Because our relationship and our profile in the ecosystem, we have folks sitting on for example, partner advisory counsels, product advisory counsels at Microsoft who actually see the product world map ahead of the game, so six months at least, if not a year and a half ahead of time. So often, we are the first launch partner. So for instance, recently, we were the first launch partners for Microsoft Office's 5 backup storage which is basically a very fast snapshot that allow you to -- allow us to offer 20 times faster backup at the enterprise grade than the traditional backup.

So these are things that you know, we're first-in-class to offer, but the power, just like you mentioned, is really in the -- of our holistic pathway. So there's vendor consolidation -- customers want to have less throat to choke, more enterprise grade accountability. So that's where we win, right. We don't just do backup protection resiliency. We also do governance and security. We also do data analytics and integration and migration, so we become now that single, more strategic advisory partner for our customers. And that's how we see we differentiate, and we show that with our customers' kind of journey and our customers' use cases continue to expand, this whole land and expand and customers use more and more of these use cases that allow us to be truly differentiated in that space.

Andy Nowinski: Do you typically land with -- do customer land with AvePoint on a backup or resilience play first, and then go into governance and modernization on suites, or do they --

T.J. Jiang: Right.

Andy Nowinski: -- they start the inverse?

T.J. Jiang: So pre-COVID, it's modernization first and then resilience and then control. Now, it's often control first, right. So because when you turn on Copilot, it uses Office graph, and also you're getting recommendations for things that you're not supposed to have access to, because no enterprise have their security permission management done correctly. So that's actually increasingly the tip of the spear for us, is -- is the governance bid and security bid, and then goes into resiliency. So we effectively have multiple ways as first entry into different type of accounts.

Another very unique aspect of our business is that we almost never see this at a company our size where we are successful at both enterprise as well as SMB. So 50% of our recurring revenue is enterprise, and 50% is SMB. So we define enterprise as 7,000 seat and above, and we license by seat just like Microsoft, with Office. Total number of employee count. And then between 500 to 7,000 mid-market, and 500 below SMB. So small business and medium size business is now 50% of recurring, specifically small business is now close to 20% of recurring. And this is actually very unusual to have company, you know, we are still not that large yet. Obviously, we have great aspirations to get to $1 billion annual recurring as fast as we can. But at our sizing to be able to address and see growth in both the enterprise as well as medium and small business, that's also a unique aspect of it. And again, that's highlighted by the concern around data governance and security.

Andy Nowinski: So I want to touch on that. So on Microsoft and gen AI, Microsoft talked about on their last earnings call, I think they talked about how like 70% of the Fortune 500 have now rolled out Microsoft Copilot.

T.J. Jiang: In some form or fashion.

Andy Nowinski: In some form or fashion, exactly.

T.J. Jiang: Even if they have 100 seats. Pilot.

Andy Nowinski: Right. So I guess that's what I was wondering, like, what are you seeing with customers right now that are rolling this out? We still are really in the experimentation phase of -- of Copilot, or are you seeing broader deployments of it?

T.J. Jiang: So I would say we are still in the early stages. I think adoption rate in total seat count is about 3% to 4% a year-and-a-half out on Copilot rollout, if you include Preview. So there's a lot more -- so everyone if you experiment, I would say 80% enterprise are experimenting. Very, very few are going enterprise-wide. We cited in our earnings call in the last couple quarters where we had this massive financial institution rolled out enterprise-wide, Copilot, but they had to essentially roll out a governance solution first before they turn on Copilot. This happened several times. Another one is one of the Big Four as well that did that, but these guys are still few and far between to see this enterprise-wide deployment. But we think the true -- the directional, it's pointing that way. Perhaps Microsoft is also working with the whole different type of licensing model and continued improvement on Copilot capabilities. We think that the bigger kind of conversion will happen probably second half of next year.

Andy Nowinski: And so on the customer that rolled out governance first, I guess two questions on that. I guess number one, which vendors did you compete against for that governance play? And second, has that customer experienced any sort of data exposure that they, you know, they didn't want Copilot or the model exposing?

T.J. Jiang: That's a great question. I think oftentimes, it's the [inaudible] that reacts very quickly from pilot. They notice that there's potential massive issues at hand so then they use vendors like us to come in to resolve that for them in an automated fashion.

Honestly, when it comes to MCC5, we are the best-in-class because we've been doing cloud and SaaS in that space for the last 12 years. We some vendor, I would say you mentioned legacy, right. I would say for example, Verona, so they came from a file share monitoring space, and they're going to cloud. They are the -- I will say they are the new entrants in the SaaS offering, but we have been doing this for -- for over 10 years, and we have incredible large set of enterprise as well as medium-size businesses globally that's adopting this. So we don't see that much competition yet in that space. But of course, others are coming in.

At breakfast, you just mentioned Zscaler is also coming in. So it is a hot area for sure. The market is massive. We don't see -- there's plenty of headroom for many vendors. In fact, the president of Microsoft Collab and OneDrive, Jeff Teper, he's been a good friend and sits on our board since 2014. He commented that he's surprised to see this many backup vendors still in cloud, right. Even as the on-prem space has significantly consolidated, you take a vendor like Symantec, right, that spit out Veritas again. They still don't have a SaaS solution today.

So I think it's going to be some time before consolidation happens because the runway for SaaS-based solutions is still massive.

Andy Nowinski: Okay. I have a number of financial questions for Jim eventually here, but I want to just continue just to wrap up this discussion on gen AI. What is Microsoft doing? Do they have -- they have Purview I know as a DLP solution, but do they have any -- I mean, if they want more customers to roll out Copilot enterprise-wide, beyond that 3% to 4% of users like you talked about, how do they -- do they have anything of their own? Are they relying on partners like AvePoint for that?

T.J. Jiang: So think of Microsoft as infrastructure, right. So they're almost like utility companies that do the, you know, pipeline for the entire city, but when it comes to actually individual enterprise, to actually roll things out, to handle the nuances of different license types, to handle multi-class scenarios, Microsoft consistently rely on partners like us, right. We don't compete against Microsoft, we compete within this multi-trillion-dollar ecosystem that's Microsoft cloud. So we do leverage Purview when customer have them and we then have capable, but Purview also even with the latest enhancements, that they announced at Ignite just a couple weeks ago -- we were all there in Chicago -- where everybody was carrying an AvePoint Microsoft backpack. So I mean, it's still very coarse. So it's not -- there's no granularity to it. There's no real-time reporting to it.

For example, even the latest enhancements, the risk level reporting, it's every 28 days, where we provide real-time reporting, we provide real granularity, we provide end user level sustainable kind of self-governance. So that kind of nuance in the range that we cover plus multi-cloud is something that Microsoft is not -- never going to do. So they will provide a baseline for some folks that may be good enough if you go for the, you know, E5 license, that has the Purview included. And by the way, E5 has been out for five years. Adoption rate of E5 is still only 19%.

So there's a long way to go and there's a lot more, you know, nuance in the market, so that creates opportunity for vendors and partners like us.

Andy Nowinski: Okay. Is there any questions at this point on -- sure. One here in the audience. We'll just wait for the microphone, and then we'll -- we'll get it to the --

T.J. Jiang: You don't have any more questions for Jim?

Andy Nowinski: I do, I have questions. We'll move to those, after these.

Unidentified Audience Member: Thanks for doing this, taking the question. I'm curious, you talked a lot about backup and the role that that plays. And we see some others out there talking about cyber resiliency. So I'm curious, like, when you're competing in the market, who do you predominantly see competitively? Like, if AvePoint wins, who's losing, kind of question?

T.J. Jiang: Yeah, that's a great question. So backup is just again, one part of what we do, right. Today we back up about 500 petabyte of data on a daily basis. But you back up -- so it's really interesting. We don't have a singular competitor across the board, and even within backup space, we have different competitors in different segments. So the enterprise, we will run into Combo, right, Combo is more enterprise-grade, and they have a SaaS solution since last year. So we run into them. We don't really run into the legacy guys like Symantec and Veritas, because they don't have SaaS, right? So now, increasingly, third party software-as-a-service backup vendor is where customers go to for the hyperscalers.

And by the way, we're also extending to not just MCC5 but also Google, Salesforce, and we also run our instances in AWS. So the world is multi-cloud, so that's also very important to keep in mind. In the SMB segment, we will run into folks like Beam, who is here today as well, so they're predominantly SMB. I think 80% of Beam's revenue come from companies with less than 100 employees. And that's the new space that we got into over the last three years, went from zero to now close to 20% recurring. We're growing very, very quickly in SMB leveraging the MSP in the vertical segment. I can go into more of that if you want, what that MSP is. But -- so yeah. So those -- those are the different type of players we run into. SMB will also have people like Cronos. But you know, so we run into different players across different segments.

So again, are advantageous because we are cross-segment, but we're also multi-cloud, and we also -- the conversation is no longer just backup, right. So in the old days, pre-cloud, enterprises, well, you might have a backup group that only think about backup. But today it's really the cloud group that think about cloud security, cloud operations, the entire digital transformation picture. So it's actually much more centralized than before. So that actually bodes very well for us because we don't just have a backup conversation, we also have the source optimization, archiving conversation, and of course, access control and life cycle management conversation.

So we can expand that, and because enterprises continue to look for consolidation to -- less vendor to rely on, that also bodes well for us.

Last thing I will say is, because we've done this earlier than anyone else, I think today we're pretty much the only fully FedRAMP certified vendor in the government data centers. So Comwell [ph] started that process. It's a three-year process, by the way. They started that process a year ago, right. They have not completed, and many other vendors are still in the queue. So that allow us to really go after the public sector, in a very advantageous way. And of course, now we're going after even the next level higher, three-letter agency data centers. So this type of high governance requirement become barrier into entry.

So for example, in Japan, we're completing this ISMAP certification, which is a 2000 security control certification. So a lot of these things, because we started and focus on public sector regulated industry, we have a first-mover advantage as well.

Andy Nowinski: Maybe just as a quick follow-up to that, you didn't mention, like a Rubrik or Cohesity which are more focused on cyber resilience.

T.J. Jiang: That's right. They're enterprise. We run into Rubrik from time to time in the enterprise space.

Andy Nowinski: And Cohesity is doing, you know, this merger with Veritas.

T.J. Jiang: They bought Veritas, yeah.

Andy Nowinski: Or yeah, that backup install base, I guess. Would you start to bump up against them in the backup space?

T.J. Jiang: Yeah. We start to see Cohesity. Again, it seems -- the space is still very large. That's why you see so many players. I think there's still plenty of run rate to get through that. Again, we rare -- we almost never see Veritas offering because they just don't have a SaaS solution. Of course, Cohesity bought them, so -- so, but yeah. So there's segmentation happening. And there's also geostrength, right. These guys, some of them, are very, you know, very strong in North America and Europe but very weak in APAC, for example. So we actually see that kind of gradiation.

Andy Nowinski: Got it. Unless there's any other questions on this topic, we'll move onto some of the financial questions. There? Okay.

So Jim, maybe coming back to the Q3 results, certainly profitability, you guys highlighted your GAAP profitable, and that was meaningfully ahead of your guidance and sales efficiency certainly improved. What's the drivers like, where are you seeing that efficiency that you're getting?

T.J. Jiang: Yeah. It's a great question. I mean, at our investor day back in March of '23, we kind of made a couple comments, right. One was, we wanted to focus on profitable growth. And so for us, what that meant was really continuing to grow, and growth is important, but doing it responsibly and focusing on profitability. So one of the ways that we have tried to do that is say, how can we be more efficient? So you point out sales and marketing, but we've -- we've actually looked at efficiency across the board, right. So if we start with R&D, we have a global development team which really helps us optimize the cost when we think about R&D.

When we think about our G&A expenses, we went public a couple years ago. We're now starting to see the benefit of scale and leverage, and those -- I would call them one-time expenses for being public, but they're -- they're not one and done, but they don't increase at the same rate that we had when we went public. So we're starting to see some of the efficiency there.

And then the last point you mentioned on sales and marketing, we've really continued to focus the country on a channel direction which is providing a lot more efficiency in terms of the growth of the business, that we're seeing more and more of our business coming through the channel, which is much more efficient for us. So we're seeing that really produce results as well.

And our long-term goal in terms of specifically on sales and marketing is to get to about 30% of revenue, and in Q3 we were at 31% of revenue. So we've made significant strides. Now, that's just the quarter. Quarters do fluctuate, so we wouldn't -- I'm not suggesting that we're right at 30 yet, just yet. But we've made significant strides in terms of that operating efficiency, and obviously sales ad marketing leads the way in terms of some of the improvements we've seen.

Andy Nowinski: Well, what are you doing on the channel side? Like, what are some channel partners that maybe you weren't previously working with, that you're working with now, and that -- why have they gravitated toward AvePoint?

T.J. Jiang: So, channel is -- we started to invest in channel very aggressively a couple years, a few years back, four years back. We see the opportunity to really scale through channel. So first, obviously, it's the major global distributors, whether it's Ingram, Tech Data, Crayon, Soft Bank. That would be the big distribution houses. Microsoft uses them the same way. And secondly, we -- so we actually use them for across the board, whether it's medium size companies or large size companies. But what we also find through channel is this core industry that's called MSPs. Recall Battel [ph], its ticker used to be MSP before they got acquired by Kaseya. So SP is a relatively new phenomenon that's happened.

So system integrators, these consulting shops, pre-cloud they make their money by doing all these machine upgrades, software upgrades, right. So that's always recurring whenever major vendors do upcycle refreshes. But with cloud, a lot of that's happening automatically, right. The hyperscalers automatically updating the software and handling the hardware behind the scenes. So then, the -- there's a pivot for the system integrators to become a fully-recurring business that's called managed services, so they will then take over your -- if you're a small business specialty, you don't have IT. The consulting shop down the street will just say, hey, I will take over all your email, you cloud license, and management and support for you, right. And let's call that a managed service offering.

So increasingly, these guys become our end users, so they will use our software to, as part of their mission-critical business applications, to manage hundreds, if not thousands, of tenants behind the scenes. So all of a sudden, we're able to access five-man companies, or two-man companies, that we were never able to touch before because we were very enterprise-focused. And because we're SaaS, where we take care of all the cloud operations, cloud security, and all the upgrades which we do on a monthly basis, so it's much easier for these managed services to use our software to then scale their business, so we become mission critical for them.

So this is a highly, high-growth space for us, it's growing three digits. And it's our ability to then unlock the SMB market. So that's worked really well where we provide enterprise-grade software for SMBs via MSPs. So MSP is now behaving like a pretty sophisticated mid-size company IT shop, right? Because traditionally we deal with large company IT organizations, you know, the JPMC IT, Goldman Sachs IT, IRS IT, and now MSPs are behaving like that. We even have small MSPs, six-people MSPs in New York City that would do a million a year recurring with us, and that's to us. And they package this and sell it to their customers. They even change -- we don't even -- we don't control how they license it. We license it by end users. So obviously, we have to change their go-to-market motion. For enterprise and for mid-size companies we do yearly multi-year contracts, blend the average two years.

For MSPs, for SMBs specially, we do monthly contracts, and 100% digital marketplace registration and pool licensing, and even two-tier pool licensing. We have global MSPs like Crayon. So it made it very, very simple to transact. The lower the threshold of our entry. So that allowed them to very flexibly add and remove user suites under management, because small business can come and go.

So -- but for us, they are, the MSP is the end customer. So that allow us to really grow very quickly with the enterprise-grade capabilities, and then this multi-tenant management, single-pane-of-glass capability for these guys. And we'll continue to roll out more function features and products in that space to grow. That's something that we're super excited about.

Andy Nowinski: It sounds like it probably contributes to your efficiency as well, too, and your operating margins?

Jim Caci: 100 percent.

T.J. Jiang: Oh, yeah, 100%. For SMBs, our unit economics is much better. Think about even at pool licensing levels, you know, there's no negotiation, right. We sell a can of soda, it's like you buy that at 7-Eleven versus buy at Costco. The price differential is very different. When we negotiate with Nestle, 300,000 seats, that's a different conversation than a SMB, that's you know, or MSP that's adding like, 10 seats or 50 seats at a time. So that conversation's yeah, it's -- it allows us to scale efficiency.

Andy Nowinski: Is there any nuances to your operating margin in Q4? It looks like it was down from a sequential basis from Q3, given all the efficiencies we're talking about here.

Jim Caci: Yeah. So what you're referring to is, we guided for lower operating margin than Q3, that we just delivered. So completely expected. So that's just the way our budget for the year works. So there's no -- nothing specifically to call out as any major change. We just, you know, our marketing expenses are not linear. T.J. just referred to, at Ignite, we were on the backpack. So obviously our marketing spend happens at various different times during the year. So for us, Q4 is a very heavy marketing spend quarter. Heavy sales and marketing in general. We're starting to ramp up, particularly in Q4, we're adding salespeople for really '25 and '26. That actually happens in Q4 of '24. So you'll see a higher spend, and historically if you look back previous years, you'll see our Q4 spend is generally the highest for the year. So right in line with what we've done in the past, and normal expectations for us. And again, nothing to specifically call out what we would expect.

Andy Nowinski: Okay. Just a few more questions here in the last few minutes.

Jim Caci: Sure.

Andy Nowinski: We've got maybe in terms -- can you just give us an update on capital allocation, how you guys think about allocation or M&A of priorities?

Jim Caci: So why don't I start, and then T.J., you can jump on this one.

So when we think about capital allocation, we really think of it as almost three pillars. We have, first and foremost, is investing in the existing business. So our primary responsibility is ensuring that the teams across the globe have the right resources in terms of people, technology, and so we want to make sure we're funding that properly. So that's -- that's first and foremost when we think about capital allocation.

Second is M&A, that you just referred to, in terms of what we can and can't do. We've done a number of acquisitions over the last several years, and T.J. can talk a little bit more about that specifically. And then the third, which we've been doing for the past really two-and-a-half years, is share repurchases.

So about two-and-a-half years ago, we had a program that we implemented about $150 million of share repurchases, and we've executed roughly about half of that to date, and that's a program that we -- we actually like to have at our disposal. And we've been effectively utilizing that, we believe, over the past two-and-a-half years. But again, that's how we generally think about capital allocation into those three main pillars.

Andy Nowinski: Great. Last minute here, any closing thoughts as we look into 2025, how you guys are thinking about sort of the spending environment next year?

T.J. Jiang: I think the macro is consistent. It hasn't really changed that much when it comes to spending environment. I think this year there's a lot of experimentation with AI, and that comes from extra bucket, not from the IT. But next year, when enterprise do more enterprise-wide deployment, that would eat into the IT budget. So you will see, legacy players are having some issues with, you know, sharing the pie, effectively IT service pie, with you know, other -- we will call ourselves native-in-cloud players.

One thing I was also on the highlight, I think this is a very much under-appreciated, is actually how hard it is to have enterprise-grade SaaS capabilities. Because we as as the industry, and Microsoft shared this with us at their CEO summit where they invited the top 20, 200 CEO partners and customers to spend two days with Bill Gates and Satya, is that we are the most attacked sector by state sponsor, standing army of Ph.D.'s. Why? Because we host some of the most sensitive, you know, agency's data, right, including State Department, IRS, etc. So to have that capability for the last 12 years consistently, be able to literally go toe-to-toe with these guys to keep them at bay, is something that's very -- it's not easy to do. This is why you see a lot of legacy guys. It's not about flipping a switch, and become SaaS. It's actually change the entire business, right? Cloud operation, cloud security, DevOps, is a fundamental change in the way software is being managed, operated and delivered, and we've been doing this for 12-plus years, and we continue to do that as enterprise grade. And that's something that I think folks don't really understand. And this allows us -- we always do the hard thing first.

We've been around 20 years. We always go after the -- do the hard thing, enterprise, government, and then global, and now multi-cloud. It sets us up for very good scaling.

Andy Nowinski: It does seem like gen AI has created a new lease on life for data security and a higher need for data security, data backup, data resilience.

T.J. Jiang: Absolutely.

Jim Caci: We joke that it used to be, that the conversations around data security and data governance were just in the IT department. Now literally, every board meeting, this is a topic of conversation. So it's really elevated.

And if I could leave you with one other thing, so in our investor day of March of '23, we called out two things. I mentioned one of them before in terms of GAAP profitability. So we called out hitting the rule of 40 in 2025 and being GAAP profitable in 2025. So as I mentioned, we achieved the GAAP profitability a year early so we feel really good about that, and the second was achieving rule of 40 by the end of 2025. So for us, rule of 40 is ARR growth plus non-GAAP operating profitability as a percentage of revenue. So as we stand at the end of Q3, on our rule of 40, we're at 37. So we had 20% ARR growth plus 14% non-GAAP operating income.

We feel really good and confident about getting to that 40%, or 40, in 2025, and are excited about delivering that next year.

Andy Nowinski: Well, great. Thank you so much for your time.

T.J. Jiang: Thank you.

Andy Nowinski: It's been a pleasure.

T.J. Jiang: Great. Thank you very much.

Jim Caci: Thank you.