Q3 2023 Earnings Call

Company Participants

- Jamie Arestia, Vice President, Investor Relations
- Jim Caci, Chief Financial Officer
- TJ Jiang, Chief Executive Officer

Other Participants

- Chirag Ved, Analyst
- Derrick Wood, Analyst
- Fatima Boolani, Analyst
- Jason Ader, Analyst
- Max Gamperl, Analyst
- Nehal Chokshi, Analyst

Presentation

Operator

Good day and welcome to the AvePoint, Inc. Q3 2023 Earnings Call. Today, all participants will be in a listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note that today's event is being recorded.

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

Jamie Arestia {BIO 19836110 <GO>}

Thank you, operator. Good afternoon and welcome to AvePoint's third quarter 2023 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 operating income, and non-GAAP operating margin, which are not measures presented in accordance with US GAAP. The non-GAAP measures are presented in this presentation, as we believe they provide investors with the means of evaluating, and 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 US GAAP. Reconciliation of these measures to the most directly comparable GAAP financial measures is available in our third quarter 2023 earnings press release, as well as our updated investor presentation, both of which are available in the Investor Relations section of our website. Lastly, we have added an Excel file, containing our historical financial metrics to the IR website for ease of reference.

With that let me turn the call over to TJ.

TJ Jiang {BIO 20151191 <GO>}

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

Q3 was another strong quarter for AvePoint, as we again meaningfully outperformed our guidance, for both total revenue and non-GAAP operating margins, while delivering total ARR growth of 25%, after adjusting for the impact of FX. Jim will spend more time on our third quarter results and updated guidance, but I would like to spend today discussing the inflection point we currently face, and why we are so excited about the many opportunities ahead of us. The digital revolution continues to accelerate with monumental AI-driven shifts happening in business and technology, in turn, requiring us to adapt faster than ever before. Just a few weeks ago, AvePoint hosted #shifthappens Conference in Washington, DC. This two-day event featured insights from AvePoint, as well as our customers and partners, on how to accelerate digital success amidst the hybrid work models that are fundamentally changing how we collaborate, as well as the astonishing potential of AI enable all companies to work smarter, faster, and better.

Although applications of generative AI are still in early stages, it is clear that AI will drive a wave of enterprise transformation across all industries in the coming years. According to Gartner, 80% of enterprises will incorporate generative AI by 2026, compared to the 5% of enterprise that have done so today. Clearly, the ambition of organizations to leverage generative AI for competitive advantage and value creation is there, but as they do so, they face inherent challenges in data management, and the reality is that today, the Number 1 hurdle for CIOs and CISOs is data quality and data trust.

I hear this concern in every conversation with customers and partners, and more formal studies also back this up. 89% of executives say that high-quality data is essential, but 75% of them don't trust their data, and 66% believe they are below average in managing the information lifecycle, properly governing the data, and ensuring its compliance. For AI projects to succeed, organizations must address these data challenges, by applying key strategies, to better manage, clean, and enrich their data.

This is where the power of AvePoint Confidence Platform comes in, and why we believe AvePoint can be a key enabler of generative AI adoption, within enterprises in the coming years. On a daily basis, we manage more than 250 petabytes of data for our customers and partners, enabling them to modernize, control, and apply resilience to their data management practices, and we have a proven time tested playbook to do so, which is only becoming more relevant, with the desire to leverage AI across businesses of all sizes around the world. Specifically, these are the steps we take with the AvePoint Confidence Platform. One, we bring together data from all repositories, and sources across the enterprise. Two, we ensure that the data is properly classified and intact. And three, we implement the correct lifecycle and access controls for that data. Organizations today are under pressure to use their own data on top of foundational AI models, to solve real business problems, and drive purposeful outcome. These steps are powerful because they quickly alleviate that pressure by establishing a strong data foundation, paving the way for a impactful AI strategy. Our innovation has aim to keep pace with rapidly evolving customer needs, and most recently, we announced AvePoint Opus at #shifthappens, available with AvePoint Maestro, the AI smart classification system. AvePoint Opus provides organizations a comprehensive information lifecycle management solution, offering them powerful insights, impactful recommendations, and effective automation.

With AvePoint Opus, organizations can manage their information, and ensure compliance, optimize cloud storage, and streamline data management processes, all of which are essential to the AI-focused ambitions, of our customers and prospects. We're excited about our roadmap for AI power solutions, and you'll hear more from us on new products and enhancements to our existing offerings, that will drive even more customer value.

Let's discuss a couple of customer wins and expansions in the third quarter, that show how we are not only helping organizations to establish that solid data foundation, but also helping them extract more value from that data to reduce costs, improve productivity, and make more informed business decisions. One of our most notable customer expansion in Q3 was a large US federal agency. A long time AvePoint customer, they faced several challenges in meeting their stringent compliance governance and security requirements for their 95,000 users as they move to the cloud. With AvePoint Confidence Platform, the agency can address those complex record management needs, including (inaudible) compliance, and data protection, identify and secure its sensitive data, and implement the proper controls over its workspace provisioning, and lifecycle management of their productivity environment including Microsoft 365, and Power Platform. This competitive win also unlocks future opportunities, as we are already in talks with them to accelerate their migration of remaining self-hosted assets to Microsoft 365, implement information lifecycle management with AvePoint Opus, and transform analytics into workplace insights with tyGraph. One of the world's largest financial service company has been a long time customer of our control and modernization suite, and in the third quarter came to us for help, reducing high capacity and consumption cost for their citizen developer platform. They purchased AvePoint EnPower, and now have better visibility into their low-code, no-code application development. and license usage of Microsoft Power Platform, allowing them to optimize their resources and save on costs for their 106,000 users. We're in advance talks with this customer to purchase AvePoint Opus, provide AI-ready information lifecycle management across its digital workplace investments.

The hybrid work model, and the exponential growth in data, particularly data produced by generative AI, has made clear that organizations need to properly secure sensitive data across an increasingly distributed digital workplace in. In Q3, a United Kingdom-based public sector agency needed a comprehensive solution to protect it's increasing amount of data to already Microsoft 365. After purchasing AvePoint's secure backup service solution, the customer can implement robust resilience for data generated by 123,000 users. And this new customer it's already considering extending the security to their Microsoft Azure, investment in order to provide comprehensive protection across our entire digital workplace environment.

I'm extremely proud of the team for another strong quarter in closing new customer wins and existing customer expansions. And just want to spend a moment discussing the channel, which as you know, it's a key pillar of our strategy to drive profitable growth. Our investment in AI, and proven ability to create a robust and secure data strategy, will not only benefit our customers, but it will also provide significant value to our expanding partner network. By integrating more AI capabilities into our technology, our partners will be equipped with smarter, more automated tools, to manage and protect their clients' data and collaboration environments.

Ultimately, this will reduce complexity, and optimize costs for our partners, enabling them to better focus on delivery strategic solutions, tailored to enhance the customer experience. We're entering the next phase of generative AI, where the focus is shifting from scaling models to building products that solve real business problems and transform the customer experience. The key to doing this effectively is by having a robust data management strategy, which is the core business problem AvePoint has solved throughout its 22 year history, and they'll integrating AI to fully harness its potential.

We'll continue to update you as we execute the product roadmap for AI power solutions, that transform and enrich data to provide perfectly tailored experiences for our customers. As a whole my remarks today made clear, we're well positioned to help companies adapt and compete in today's dynamic business and technology landscape, and the value provided by the AvePoint Confidence Platform is critical to the success of AI ambitions of companies around the world.

With that, I'll turn over to Jim to discuss our financial results in more detail.

Jim Caci {BIO 18051667 <GO>}

Thank you, TJ, and good afternoon, everyone.

As we review our strong third quarter results today, let me remind you that unless otherwise noted, I'll be referring to non-GAAP metrics. For the third quarter ended September 30, 2023, total revenues were $72.8 million, up 16% year-over-year, and once again, above the high end of our guidance. Within total revenue, third quarter SaaS revenue was $41.9 million, as our fastest growing revenue segment grew 40% year-over-year. And in Q3, SaaS comprised 58% of total revenues compared to 48% a year ago.

Looking at the business geographically, our solid performance was once again driven by the growth in our SaaS business. In North America, SaaS revenues grew 28% year-over-year, and represented 57% of North America revenues, which in turn grew 8% year-over-year. In EMEA, SaaS revenues grew 51% year-over-year and represented 72% of EMEA revenues, which in turn grew 14% year-over-year. And in APAC, SaaS revenues grew 50%

year-over-year, and represented 43% of APAC revenues, which in turn grew 35% year-over-year.

Total ARR surpassed the $0.25 billion mark this quarter, as we ended Q3 at $250.6 million. This represents year-over-year growth of 23%, and growth of 25% when adjusted for the impact of FX. Net new ARR in the third quarter was $14.4 million, representing year-over-year growth of 14%, after adjusting for the $3 million of ARR that we added in the prior-year period, through the acquisition of tyGraph. And as we look at ARR geographically, we are pleased that year-over-year growth for all three regions was generally in line with total reported ARR growth, as we saw another strong quarter of execution by our sales teams.

Continuing with ARR, and the metrics we assess against several key growth strategies, we ended the third quarter with 518 customers with ARR of over $100,000. That's up 16% from the prior-year period. As of the end of Q3, 50% of our total ARR came through the channel compared to 47% a year ago. And for Q3 specifically, 72% of our incremental ARR came through the channel, compared to 61% for Q2. As discussed at our Investor Day in March, the channel contribution to our incremental ARR may fluctuate from quarter to quarter, but we expect the channel contribution to total ARR to continue increasing each quarter. In turn, this should continue driving ARR growth, and operating efficiencies, as we've seen through the first three quarters of this year.

Turning now to our customer retention metrics. Adjusted for the impact of FX, our trailing 12-month gross retention rate for the third quarter was 87% in line with what we reported at the end of Q2. And looking at our net retention rate, we saw another strong contribution from our existing customer base in Q3, highlighted by several of the expansion examples TJ just discussed. This led to another improvement in NRR versus the prior quarter, as this metric was 108% in Q3 compared to 107% at the end of Q2, after adjusting for the impact of FX. On a reported basis, Q3 GRR was 85%, and in line with Q2 GRR, while NRR improved from 104% in Q2 to 107% in Q3. To remind you, our medium-term target for gross retention rate is 90% plus, and for net retention rate is 110% to 115%.

Turning back to the income statement, gross profit for the quarter was $53.7 million, representing a gross margin of 73.7% compared to 74% in Q3 of 2022, and 71.1% in Q2 of 2023. We are pleased that our gross margin remained in line with last year and improved versus the prior quarter. Going forward, we would expect to see improvements in our overall gross margin, as services, which is our lowest margin business, continues to become a smaller portion of our revenue base.

Moving down the income statement, we are pleased that Q3 operating expenses were flat year-over-year, totaling $44.3 million or 61% of revenues. This compares to $44 million or 70% of our revenues a year ago. As a result, Q3 non-GAAP operating income was $9.3 million, or an operating margin of 12.8%, well above the high end of our guidance. This compares to operating income of $2.4 million a year ago, or an operating margin of 3.8%. We continue to show leverage across the business, especially in the sales and marketing, and general and administrative lines, which as we discussed at our Investor Day were the biggest areas of opportunity for us. Overall, our sustained focus on profitable growth drove year-over-year margin expansion of approximately 900 basis points in the third quarter.

Turning next to the balance sheet and cash flow statement, we ended the third quarter with $209.3 million in cash and short-term investments. For the nine months ended September 30, 2023, cash generated from operations was $13.3 million, while free cash flow was $11.8 million. This compares to cash used of $6.9 million and free cash flow of negative $10.3 million for the nine months ended September 30, 2022. Taken together, our strong cash balance, and our ongoing cash flow generation, provide ample flexibility as we constantly evaluate our capital allocation priorities, which include investing for profitable growth, M&A, and share repurchases, where I'll turn next.

During the nine months ended September 30, we repurchased 6 million shares for a total cost of approximately $33.6 million, and through the close of trading yesterday, we had repurchased a total of 6.6 million shares, for a total cost of approximately $37.7 million in 2023

I would now like to turn to our financial outlook, where for the full year, we are pleased to once again raise our expectations for total ARR, total revenue, and operating income. For the fourth quarter, we expect total revenues of $70.5 million to $72.5 million, or year-over-year growth of 12% at the midpoint. We expect non-GAAP operating income of $8.1 million to $9.1 million, representing an operating margin of 12% at the midpoint, and year-over-year margin expansion of more than 1,000 basis points.

For the full year, we now expect total ARR of $261 million to $263 million, or year-over-year growth of 22% at the midpoint. We now expect total revenues of $267.7 million to $269.7 million, or year-over-year growth of 16% at the midpoint. Lastly, we now expect non-GAAP operating income of $20 million to $21 million. This represents an operating margin of 7.6%, and year-over-year margin expansion of nearly 900 basis points. This also represents nearly 240 basis points of improvement, relative to our initial 2023 operating margin guidance in March, as we continue to drive operating leverage across our business.

In summary, we are pleased with our Q3 results, and we're equally excited for a strong close to 2023, as our commitment to profitable growth continues to drive shareholder value.

Thanks for joining us today. And with that, we'd be happy to take your questions. Operator?

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Today's first question comes from Fatima Boolani with Citi. Please proceed.

Q - Fatima Boolani {BIO 22760349 <GO>}

Thank you, and -- thank you for taking my questions. TJ, I wanted to start with you, with respect to Opus, and really delve into your philosophy around commercialization. In other words, I want to get an understanding of is this going to be a discrete incremental monetization opportunity for you, or is it going to be used as a strategic and competitive maneuver to drive better retention and expansion velocity in the base? Would love to unpack that with you in terms of monetization strategy? And then, a follow-up as well, please?

A - TJ Jiang {BIO 20151191 <GO>}

Thank you, Fatima, for that question. Yeah, so last earnings we already discussed we had preview customers with government agencies, that's already deriving productivity improvements with this product. This is actually the new generation of our cloud archiving, and record management product. So, it's actually both. It's both of a incremental revenue go-getter for us, as well as expansion of emphasizing the platform play that we have around the whole end-to-end lifecycle management business data. So, that's part of it. It's, you know -- also really to second part of your question. And very importantly, this whole area of information management, it's key in today's AI -- GenAI rush, where all the companies are actually building their proprietary models. We believe in a solid data state, proper governance and management of that data, to then actually generate really good predictive models, leveraging your proprietary data. So, this is actually both incremental as the new version of our existing product, but also very strategic in leaning into this AI-ready Information management story for our platform.

Q - Fatima Boolani {BIO 22760349 <GO>}

Thank you for that. Just wanted to shift gears into your performance by geographic theaters. I mean, the United States, performance stands out to me, you know, it's growing at a fraction of the rate of your rest of world regions, and it's actually based on what I see -- I've seen the most deceleration in the last several quarters. So, I wanted to understand why the disconnect in the North American markets versus your international execution.

A - Jim Caci {BIO 18051667 <GO>}

Great. Thanks, Fatima, for the question. So, maybe a couple thoughts, right. One is, we're seeing, as you mentioned, it's 8% growth in terms of revenue growth, but if we think about that, it's really a revenue mix issue that's driving that. And what we're seeing is in North America, we're seeing significant growth on the SaaS side. So, we saw a 28% growth year-over-year on SaaS. And then our term license revenue was actually down 10%. So, it's a little bit of a mix. So, the most important thing that we're looking at is really our ARR growth in North America, and what we see there is growth that's in line with the overall company growth, that we reported for the quarter of 23%. So, we're right in line with that. And so, for us, we don't look at it as necessarily deterioration, we're just looking at really as a mix shift, and in the long run, I think that helps us.

Q - Fatima Boolani {BIO 22760349 <GO>}

I appreciate that color. Thank you.

A - Jim Caci {BIO 18051667 <GO>}

Sure.

Operator

The next question is from Gabriela Borges with Goldman Sachs. Please proceed.

Q - Max Gamperl {BIO 21673024 <GO>}

Hi. This is Max on for Gabriela. Thanks for taking our questions. Relatively to when you entered this year, how much incremental demand you think has resulted from the more broader adoption of GenAI versus demand that you have already accounted for earlier this year, and how has this maybe offset some of the budget scrutiny this year?

A - TJ Jiang {BIO 20151191 <GO>}

I'll start first, and then Jim, you can chime in. GenAI is -- for us, we -- there's a lot of excitement about it, but we're still early stages. So, relative to going into this year, it's -- we are executing as we have forecasted. Having said that, the macro environment is still relatively volatile. So, we're being constructive, and looking at continued execution, but GenAI will play a much bigger part going into, especially now Microsoft 365 Copilot is GA'd, and on November 14, there would be actually a productivity data released by Microsoft, serving the industry where we also work in private preview mode with partners and customers, to see some positive results. So, I think to answer your question is, yeah, go into the year, and this year's execution, there's not so much GenAI, but GenAI, obviously, is playing a part into the future quarters.

Q - Max Gamperl {BIO 21673024 <GO>}

Got it. That's helpful. And you raised your operating income guidance again for the year. What's driving that operating leverage? Is that primarily associated with your shift to the channel, or are there other factors that might go into this?

A - Jim Caci {BIO 18051667 <GO>}

Yeah. Thanks, Max. I think it's really across the board, right. That is clearly a factor. I think we are getting leverage, really across our sales and marketing teams, as well as our general and admin expenses. You can see that really across the board. So, I think the channel is playing a component. We're able to see some leverage there, but I also think we're able to take advantage of really leveraging some of our G&A expenses as well. So, I think we're looking to continue that really into Q4 and beyond. The focus this year has really been on profitable growth, and I think that comes from -- the channel is helping that, in terms of leverage, but we're also examining all parts of the business, and ensuring that we're as efficient and effective as possible.

Q - Max Gamperl {BIO 21673024 <GO>}

Got it. Thank you.

Operator

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

Q - Chirag Ved {BIO 22913348 <GO>}

Hi. This is Chirag Ved on for Kirk. Congratulations on the strong quarter, and thanks for taking the question. I first wanted to ask about the broader demand environment, whether anything has changed from the past quarter, and how that compares across the customer segments you sell to, weather enterprise, mid-market, and SMB. So, any commentary on the general macro spending environment, and customer budget would be very useful. Thank you.

A - Jim Caci {BIO 18051667 <GO>}

Yeah, thanks for the question. So, you know, we're seeing it's still a very challenging macroenvironment, and pretty uncertain. We're still seeing the same scrutiny around budgets. So, we see that continuing. We don't think it's gotten worse when we think about the demand. We actually -- I think, last quarter, we referred to it as stabilization. And I think I would continue to use that terminology. When we look at our deal cycles, and how long it's taking to get deals through the process, that doesn't seem to have changed much. This year is longer than the past, but it hasn't been getting worse as we've gone through the year. So, I think that's kind of stabilized. And when we look at the three segments, you know, our SMB segment is our fastest growing segment, that continues to be, but all three segments have been healthy in terms of growth. So, again, we're not really seeing any one particular segment overly affected. So, again, we're really pleased with the quarter's performance, and it's really across all three segments.

Q - Chirag Ved {BIO 22913348 <GO>}

All right. Thank you.

Operator

Our next question comes from Nehal Chokshi with Northland Capital Markets. Please proceed.

Q - Nehal Chokshi {BIO 16526682 <GO>}

Great. Thank you. Great quarter, guys. Any specific skews driving the slight improvement to the net revenue retention rate?

A - Jim Caci {BIO 18051667 <GO>}

Yeah. Well, I think, it's a couple of things, right, in terms of -- we definitely have seen TJ pointed out a couple, you know, customer, you know, acceleration or additions in the quarter. I think those were very helpful. I think we're seeing customers really look to reduce costs. So, we've seen some consolidation. We've seen some of our products that are helping them do that with existing customers. So, I think that's really been the key call-outs. I think it's still -- you know, we're still in this macro uncertain environment, right. So, we're pleased with the quarter's performance. But again, we're being very, you know, cautiously optimistic when we think about the rest of the year.

Q - Nehal Chokshi {BIO 16526682 <GO>}

And if I may, for calendar 2023 ending, you're guiding to 22% ARR growth as is. What's the FX-adjusted expectation with current rates?

A - Jim Caci {BIO 18051667 <GO>}

Well, again, for us, it's interesting, right. We've got a very global business. So, we've seen this year -- if you look at the FX impacts around the globe, we've seen, you know, EMEA kind of comeback in terms of the euro against the dollar, that's gotten stronger. But we've seen the Japanese yen continue to get weak against the dollar. And for us, those kind of offset each other slightly. So, we're going to see, you know, slight improvement on the ARR in terms of this 22%, probably gets us another 2 points in total for the year. I mean, you can see that as we were in Q3 23% and 25%. I think it's probably similar for the year, somewhere in that 1% to 2% impact of FX.

Q - Nehal Chokshi {BIO 16526682 <GO>}

Great. Thank you.

Operator

The next question is from Derrick Wood with TD Cowen. Please proceed.

Q - Derrick Wood {BIO 4963641 <GO>}

Great. Thanks for taking my question. TJ, we're hearing more and more of that cloud optimization efforts are something here to stay. With workload governance and cost management a core part of your value proposition, just curious, is the level of the buyer that you're engaging changing at all, and how do you feel about positioning for larger budget capture? And I guess I'd ask the same thing for AI. I mean, as companies, perhaps view you guys as critical in helping train models against private data, do you think that new buyers to engage would surface?

A - TJ Jiang {BIO 20151191 <GO>}

Hey, Kirk [ph], great question. The first part of that is cost control really plays into our wheelhouse. Our platform advantage, especially with control suite, or operation management, entitlement management, and, of course, there's whole lifecycle management, including low-code, no-code platforms, that's power apps, is in high demand. So that part is really well.

And with AI, I have so much conversation now with the CISOs and CIOs around rolling out Copilot to make sure that there's Copilot readiness. So, that means, you know, making sure that folks don't have overprivileged access to suggestions from Copilot in terms of drafting answers, and leveraging corporate data. So that's a very, very active area and topic. We actually see tremendous opportunity to expand our value-added strategy -- strategic offer there. So that's why, at my earlier comment, we think that that will drive a lot of the business growth in the coming quarters and years.

So yeah, both of those platform play, as well as the necessity around proper information management to drive a better outcome with AI is going to be the major theme going forward. And by the way, we're not stranger to AI. We've been a long-time consumer of cognitive services on Azure, which is basically the front-end to OpenAI for a number of years now. We have solutions that does these detection and ransomware attacks, for example, and auto classification, taxonomy generation, as well as data analytics versus using previous paradigms in AI, of course, now, infusion of GenAI architecture. So yeah, so these are things or major themes going -- that's going to carry forward in driving momentum for the business.

Q - Derrick Wood {BIO 4963641 <GO>}

Got it. Thanks there. And a follow-up for Jim. On the ARR guidance, if I look at what it implies for a net new ARR, it's down quarter-over-quarter in the Q4, and I think the same thing happened last year, but can you just remind us why this is the case of Q4? Is it had something to do with on a spiking government strengthened Q3, or what are the dynamics that have net new ARR going down sequentially?

A - Jim Caci {BIO 18051667 <GO>}

Yeah, good question, Kirk [ph]. So, yes, part of that is what you just said, that's definitely part of it. I think the second half of that really deals more with the macro environment we see. When we came into Q3, we kind of set the expectation that we'd be somewhere between $24 million and $25 million of incremental ARR in the second half of the year. And so, we still feel really good about that, and obviously, we're pleased with how we performed in Q3. I think some of it is a little bit of the government sector to the public sector, but again, we're just thinking about the macroenvironment, the uncertainties, and again, feel -- still feel very comfortable with that original set of getting somewhere between $24 million and $25 million. We have a small raise for ARR for Q4, and we feel comfortable with that in light of the, you know, the macroenvironment right now.

Q - Derrick Wood {BIO 4963641 <GO>}

Thank you.

A - TJ Jiang {BIO 20151191 <GO>}

Thanks, Derrick.

Operator

The next question is from Jason Ader with William Blair. Please proceed.

Q - Jason Ader {BIO 1878505 <GO>}

Yeah. Thank you. Good afternoon, guys. Just wanted to ask you on first off on the revenue growth guidance for Q4, 12%, that would be quite a bit lower than where it was in the first three quarters of the year, and certainly lower than where it's been historically. Is there something unique going on in Q4? Is it just macro? Maybe just help us square, you know, why the revenue growth would decelerate as much as that?

A - Jim Caci {BIO 18051667 <GO>}

Sure. Thanks, Jason. So, maybe it's two factors, right. One is what you called out in terms of the macroenvironment. Again, just trying to plan for uncertainties. And then, the second piece might be that in Q3, even though our term license revenue is down 10% year-over-year, it is higher than what our expectation was coming into really the second half of the year. And so, in essence, right, that term license revenue is going to pull a little revenue out of future periods, and have it land in Q3, which helps a little bit with the beat we saw in Q3, but it also then negatively impacts Q4. So, again, I think it's more the macro, but we're trying to take those factors in into play.

Q - Jason Ader {BIO 1878505 <GO>}

Understood. Okay, great. And then, on the gross revenue retention, you're in the mid-80s right now. You're primarily an enterprise-focused company. That's definitely on the low end of companies that sell into the enterprise. Can you help us understand why your gross revenue retention isn't higher? I know you have aspirations to get it to 90% plus. I guess, what needs to happen for you to get to that 90% plus? And then also, when somebody does churn off, like, what's the main reason somebody's turning off?

A - Jim Caci {BIO 18051667 <GO>}

Yeah, good question, Jason, and you're right. Our focus, you know, has been that, you know, our long term goal here is to be 90% plus in terms of our gross retention rate. That's our stated focus. We've got multiple initiatives working on that from -- everything from customer engagement, all kinds of different retention scenarios around that, including some of the things that we're talking about here with AI, and really looking at behavior of customers, all the way through their lifecycle with us as a customer.

So, I do think we have a lot of things that are in place, that we're working on, that are going to, you know, reap rewards and improvement for that. I do think this year, in particular, you know, we've talked about this uncertainty, and I think we are seeing it show up in terms of some of our activities, and, you know, keep in mind that most of our licensing is seat-based, or employee-driven. And so, we are seeing that impact a little bit this year as well. And so, I think when you factor in the macro, and our kind of licensing base today, I think, you know, we're pleased right now that we're in that 87% range right now in terms of gross retention. But again, we are initiating a bunch of things that we anticipate over time will definitely improve that gross retention.

Q - Jason Ader {BIO 1878505 <GO>}

All right. Thank you.

A - TJ Jiang {BIO 20151191 <GO>}

Yeah, Jason, I would just say that--

Q - Jason Ader {BIO 1878505 <GO>}

Yes, go ahead, TJ.

A - TJ Jiang {BIO 20151191 <GO>}

Yeah, Jason, I would just say that, you know, in 2020, our gross retention's 83%. So, we're sitting at 87% now. It's a marked improvement. Also, enterprise is about half of our business now, with mid-market being 30%, and SMB being 20%. So, given that mix, we're actually decently happy with the current mixture. Of course, we'll continue to work to improve that, but we do have quite a sizable non-enterprise business now.

Q - Jason Ader {BIO 1878505 <GO>}

Would you say that gross revenue retention for the 50% that's enterprise is north of 90%? Would that be fair?

A - Jim Caci {BIO 18051667 <GO>}

It is definitely higher. As you would expect, the tiers are the way you would expect. Our enterprise group has the highest retention, mid market is slightly lower, and then SMB is the lowest. So, yeah, you're directionally, absolutely correct.

Q - Jason Ader {BIO 1878505 <GO>}

All right. Thanks, guys. Good luck.

A - Jim Caci {BIO 18051667 <GO>}

Thanks, Jason.

Operator

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

A - TJ Jiang {BIO 20151191 <GO>}

Thank you. First, I want to thank the entire AvePoint team for delivering another strong quarter. We're laser-focused on advancing the digital workplace, capturing growing markets, and prioritizing profitable growth. After speaking with many of our customers and partners at our #shifthappens Conference last month, I'm more energized than ever about the opportunities ahead of us, to help companies harness the full potential of AI in their business processes. Thank you for joining us today.

Operator

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