Q4 2023 Earnings Call

Company Participants

- James Arestia, Vice President, Investor Relations
- Jim Caci, Chief Financial Officer
- Tianyi Jiang, Chief Executive Officer

Other Participants

- Analyst
- Derrick Wood, Cowen & Co., LLC

Presentation

Operator

Good afternoon, and welcome to the AvePoint, Inc, Fourth Quarter Fiscal Year 2023 Earnings Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation there will be an opportunity to ask questions. (Operator Instructions) Please note this event is being recorded.

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

James Arestia {BIO 19836110 <GO>}

Thank you, operator. Good afternoon, and welcome to AvePoint's fourth quarter and full year 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 U.S. 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 U.S. GAAP.

A reconciliation of these measures to the most directly comparable GAAP financial measures is available in our fourth quarter and full year 2023 earnings press release as well as our updated investor presentation, and financial tables, all of which are available on our Investor Relations website.

With that, let me turn the call over to TJ.

Tianyi Jiang {BIO 20151191 <GO>}

Thank you, Jamie, and thank you to everyone joining us on the call today. Our fourth quarter was outstanding close to our strongest year yet as a public company, as we meaningfully outperformed our guidance for all metrics, total ARR, total revenues, and non-GAAP operating margin. Once again, our results were driven by the strength of our platform offering and the customer demand to establish a solid data foundation, in turn, allowing our customers to manage and protect critical data, reduce costs, improve productivity, and make more informed business decisions. Jim will spend more time on our Q4 results and our initial expectations for 2024. But I would like to spend today on three main topics.

First, what we're seeing as the world moves from talking about AI to beginning to apply it at scale. Second, some key customer wins that demonstrate how we are enabling organizations to prepare and fully harness AI to advance their digital workplace. And lastly, several steps we're taking at AvePoint to invest in future innovation. Let's start with AI. AI is not a fad. It is a powerful force that is transforming every industry and every aspect of our lives.

Recent research finds that 80% of companies will incorporate generative AI into their businesses by 2026. And it has the potential to collectively add $4.4 trillion to the global economy.

And by 2027, sales of generative AI software and services will climb 35% and 42% respectively. Simply put, this is a tremendous market opportunity and AvePoint will be a key player in driving generative AI adoption across a wide range of businesses in the years to come.

What gives us this confidence? There's a catch to all the excitement around AI. AI is only as good as the data that feeds it and data is inherently messy, complex, and risky. Data needs to be managed, governed, and secured. In short, data needs to be ready for AI.

To build AI that truly understands your business, you need a data foundation that maps every workspace, piece of content, and user to the right business context. The emerging AI solutions baked into tools organizations use to work every day, such as

Copilot for Microsoft 365, are generating a lot of buzz based on how they can improve productivity. But what we're also hearing from our customers and channel partners is that, first and foremost, they must have the proper information management, data security, and optimized data governance functions necessary to take full advantage of any AI-driven solution.

The AvePoint Confidence platform does just that. It transforms chaos into order. It enriches your enterprise data with context around ownership, risk postures, and relevance. With this data foundation, our AI insights engine, which supports the entire Confidence platform, comes alive. Learning your business needs, refining models tailored to you and improving decision making for end users.

In short, we can power new AI experiences for customers. Example of this in market today are products like AvePoint Opus, AvePoint Empower, and AvePoint MyHub, which offer comprehensive information management to ensure compliance, optimize cloud storage, streamline data management processes and improve employee experience. All of which are essential to the AI ambitions of our customers, partners, and prospects.

For example, AvePoint Opus is available with the AI smart classification system to automatically classify and tag documents based on their content, metadata and context, and applies the appropriate policies and actions to them. This reduces the manual effort and human error involved in data governance, enables organizations to prevent data breaches, reduce storage costs and enhance data quality and usability.

While the AI opportunity remains in early stages, we're excited by what we're seeing and would like to share a few customer wins in Q4 that demonstrate how we help organizations prepare their data foundation to harness the potential of AI into their operations.

In Q4, we won the business of a large insurance group in France with over 30,000 employees, which is in the midst of moving to the cloud to modernize productivity and collaboration.

With our secure cloud backup solution, the insurance group can safeguard their sensitive data across multiple environments, including Microsoft 365, Entra ID, Power Platform, Azure, and AWS virtual machines. The customers choose our solution over competitors because our ability to support cyber resiliency for all these environments, and our flexibility to support future additions, such as Power BI and Salesforce.

With that point, this organization can now ensure the security and availability of their data and applications, while also complying with regulations and standards as they modernize their digital workplace.

Once organizations establish a data resilience strategy, a natural next step is to implement a data governance framework that secures their operations while not impeding collaboration.

In Q4, we expanded our relationship with a global healthcare company with more than 100,000 users. Already a customer of our secure cloud backup solution, they purchased our policies product to implement more control and visibility over their fast-growing cloud resources, permissions, and workspaces. As the customer continues to modernize its productivity environment, they also purchased our solution for migrating legacy content from Box, Dropbox, self-hosted SharePoint, and other Microsoft 365 tenants. So they can leverage our AI insights engine to improve their data quality as they consolidate their content into one centralized secure location.

I discussed AvePoint Opus a moment ago, and we are pleased to see the initial attraction from this new product with both existing and new customers. One of our existing customers, a leading global automotive manufacturer with 80,000 users, wanted to implement a robust information management strategy to secure, govern, and manage their data across Microsoft 365. They choose AvePoint Opus to apply consistent and automated information lifecycle policies to classify, retain, archive, and dispose of their data according to their business and compliance needs. They also leveraged the AI-powered analytics and insights provided by AvePoint Opus to better understand how data is being used by the organization and how to reduce data breach risk.

The other benefit of AI-ready information management strategy is managing the rising costs of data storage, which was the case with a global communications firm with 900 terabytes of data. AvePoint Opus rapidly identified crucial data sprawl and storage optimization challenges, discovering thousands of unowned and unused teams and workspaces, leading to high storage costs.

The customer choose AvePoint Opus to quickly and intelligently archive 80% of its contents, which will save $2 million over the next three years. In addition to these savings, our platform will also enhance their data governance and compliance posture.

As we meet this transformative moment in our industry, we're evolving our organizations and making strategic investments to drive faster innovation, so we can continue delivering on our promise to advance the digital workplace, capturing growing markets, and prioritize profitability.

First, within AvePoint, we see the need to create a program that will accelerate our AI consumption, introduce automation to enhance our business, and ensure we remain innovative and competitive. That's why in the fourth quarter, we launched AvePoint AI, our new program that is integrating AI across all aspects of our company, from our products and services for our customers, to our own businesses and operations.

In addition, this program will include the opening of AI industry lab in partnership with Economic Development Board of Singapore and other institutes of higher learning. We have a framework for rapidly incorporating and fine tuning AI innovations and a path forward to apply AI to emerging trends we see in the space. We look forward to sharing our progress in the coming quarters.

Second, we recognize the importance of pursuing inorganic opportunities to expand our market presence and stay on the cutting edge of technology. We're excited to announce that we'll be anchoring a new growth equity fund, A3Ventures, that will invest in B2B software companies that are ready for the global stage, including those focused on accelerating generative AI for the digital workplace around the globe.

In addition to creating a thriving ecosystem for Apple and cloud customers and partners, our prominent role will provide line of sight to attractive assets, enhance our engagements with our channel network, expand our influence with strategic partners, and increase our total addressable market. We look forward to sharing more information on A3Ventures as a fund as the fund launches in the coming months.

In closing, we're well-positioned to help companies adapt and compete in today's dynamic business and technology landscape, as the value provided by the AvePoint Confidence platform is critical to the success of the AI ambitions of companies around the world.

With that, let me turn the call over to Jim.

Jim Caci {BIO 18051667 <GO>}

Thanks, TJ, and good afternoon, everyone. Thanks for joining us today. As TJ mentioned, Q4 was an outstanding quarter with a number of financial highlights.

Before I review our results, I'll spend a few minutes discussing how we evaluate our quarterly performance and also how we think about the long-term market opportunity ahead of us. I want to stress that we constantly balance the two.

We recognize the importance of steady, consistent execution, but we also don't simply manage the business for the next 90 days. Our primary goal is to ensure that AvePoint is always positioned for long-term growth and profitability.

We spoke about this mindset at our inaugural Investor Day a year ago, which included a deep dive into our business drivers, several new KPIs, updated long-term targets, a review of our capital allocation priorities, and lastly, our target to be GAAP profitable and a Rule of 40 company in 2025. With 2023 now behind us, I'll revisit these with an update on our progress and then turn to our results and our initial expectations for 2024.

Let me start by drilling down into our top-line performance, where we continue to execute and demonstrate improvements across the three pillars that drive our business. First, landing new customers. As you know, the market we serve is not constrained by customer segment, industry, or region. We sell to companies of all sizes, in all verticals, and in all areas of the world.

To capitalize on this demand, our strategy has been to drive more business through the channel, particularly with small and mid-market customers, as it allows us to further extend our reach and efficiently tap into massive greenfield opportunity we see. When we discussed this at Investor Day in March of last year, we disclosed that we had over 17,000 customers.

A year later, that number has grown to more than 21,000, with growth of approximately 24%. While our SMB customers remain the fastest-growing segment, we are extremely pleased to see double-digit growth from our enterprise and mid-market customer segments versus a year ago.

It's clear that our channel strategy is working, and combined with the experience of our direct salesforce, is driving strong new logo acquisition, which in turn positions us for future growth.

Second, strong renewals. At Investor Day, we disclosed our historical gross retention rates for the first time, as well as our strategies to drive this metric higher, including increased investments in customer success and technologies that provide better visibility into our customers' platform usage. While we know these will take time to be fully realized, we are encouraged that adjusted for the impact of FX, GRR was stable throughout 2023 at 87%, especially given the uncertain macro environment we saw last year, the fact that our solutions are primarily headcount-based, and that Q4, when we have our highest number of renewals. While we recognize that GRR can fluctuate, we remain confident in our ability to achieve our medium-term GRR target of 90% plus.

And lastly, the expansion opportunity within our existing customer base. As we have discussed, we know that customers who renew with us continue to expand and consume more of our platform. The best measure of this is our FX-adjusted net retention rate, which was 109% for Q4, capping a year in which NRR improved a percentage point each quarter.

And like GRR, we continue to make progress toward our medium-term NRR target of 110% to 115%. We also look closely at our attach rates. And another new disclosure at Investor Day was the percentage of our mid-market and enterprise customers taking two or more products, regardless of suite, and the percentage of those customers taking products from multiple suites.

For our customers taking two or more products, we saw an increase from 48% at the end of 2022 to 50% at the end of 2023. And for our customers taking products from multiple suites, we saw an increase from 23% at the end of 22% to 24% at the end of '23.

We are pleased to see the continued improvement in these metrics, given that it's common for new customers to start with one of our solutions and then expand once we demonstrate the value of our platform offering. These three pillars are what we primarily scrutinize as we assess our top-line performance. But the other lens through which we have increasingly evaluated the business over the past several years is on a regional level.

We are truly a global company with more than half our business coming from outside of North America. We have provided greater authority and autonomy to our regional leaders, empowering them to truly understand our local markets. And we are pleased with the performance from each region, which I'll discuss more shortly.

Now let's spend a minute on the cost side, as we are equally focused on profitability. At Investor Day and throughout 2023, we discussed our plan to control the controllable and show steady operating margin improvement in the years to come.

In 2023, we made meaningful progress toward our long-term targets, realizing some of the substantial embedded leverage in our business, while continuing to deliver strong top-line growth.

Starting with our gross margin, we finished 2023 at 73% on a non-GAAP basis, which is approaching our long-term target of 75%. To bridge this, further improvements will be driven by a continued reduction in our services business as a percentage of total revenues, and in the cost associated with our SaaS offering. In 2023, services represented 16% of our revenues after representing 18% of 2022's revenues. Our long-term goal is for services to be about 10% of revenues.

Turning to sales and marketing, which were 38% of 2023 revenues on a non-GAAP basis. This is a significant improvement over the 43% of 2022 revenues and 44% of our 2021 revenues. Our success this year was driven by improved sales efficiency and the ongoing maturing of our channel strategy. And we expect these dynamics to continue driving leverage as we steadily work toward our 30% long-term target.

Research and development was 12% of 2023 revenues on a non-GAAP basis and is already within our 10% to 15% long-term range. This level is consistent with the 12% of revenue in 2022, and we expect this level to hold as we continue to make investments in targeted geographies, in past and future acquisitions, and in the ongoing enhancements to our platform.

Lastly, is general and administrative, which was 15% of 2023 revenues on a non-GAAP basis after representing 20% of revenues in 2022. This improvement was driven by our focus on expense management, as well as the ongoing benefits of scale and the slowing incremental costs of being a public company. We expect these dynamics to continue driving leverage as we steadily work toward our long-term target of 10% of revenues.

Putting all of this together, we delivered a non-GAAP operating margin of 8.1% for 2023, compared to negative 1.2% in 2022, as our focus on profitable growth drove year-over-year margin expansion of over 930 basis points. And while we do not expect the same levels of margin expansion each year going forward, we do see a clear path to achieving GAAP profitability and Rule of 40 status in 2025.

Let's turn to our fourth quarter results where, unless otherwise noted, I'll be referring to non-GAAP metrics. For the fourth quarter ended December 31, 2023, total revenues were $74.6 million, up 17% year-over-year, an acceleration from Q3 and above the high end of our guidance.

Within total revenue, Q4 SaaS revenue was $45.3 million, representing year-over-year growth of 37%. Q4 SaaS revenues represented 61% of total fourth-quarter revenues, the highest-ever contribution we have seen from our fastest-growing revenue segment. This compares to SaaS representing 52% of total Q4 revenues a year ago.

The strength of our SaaS business was also evident as we look at our Q4 results by geography. In North America, SaaS revenues grew 24% year-over-year and represented 57% of total North America revenues, which in turn grew 29% year-over-year.

In EMEA, SaaS revenues grew 47% year-over-year and represented 82% of total EMEA revenue, which in turn grew 6% year-over-year. And in APAC, SaaS revenues grew 52% year-over-year and represented 45% of total APAC revenues, which in turn grew 13% year-over-year.

As I've shared in prior calls, the mix of SaaS and term license business in any given quarter can impact our revenue growth due to the differences in revenue recognition. In Q4, this was especially true in EMEA and in APAC, where both regions had a much higher mix of SaaS compared to the prior year, resulting in the optically lower revenue growth rates I just discussed.

This dynamic is why we encourage investors to look at ARR as the best metric of our performance. And in line with my earlier comments on how we assess our results with a more regional view, we will begin disclosing regional ARR growth each quarter.

In addition to offering greater transparency into our financial results, regional ARR growth will also provide a better view of the underlying momentum of the business everywhere we operate. And we were pleased with the year-over-year growth we saw in Q4.

As North America ARR grew 24%, EMEA ARR grew 23%, and APAC ARR grew 21%. Each region was a strong contributor to our overall performance with their respective ARR growth rates in line with the 23% ARR growth we reported on a consolidated basis.

Continuing now with total ARR and other key metrics we regularly assess. As of December 31, 2023, total ARR was $264.5 million, representing year-over-year growth of 23% or 24% after adjusting for the impacts of FX.

As a result, net new ARR in Q4 was $13.9 million, representing a year-over-year growth of 28%. We ended the year with 547 customers with ARR of over $100,000, an increase of 20% from the prior year. We also ended 2023 with 178 customers with ARR over $250,000, an increase of 30% from the prior year.

As of the end of Q4, 51% of total ARR came through the channel, compared to 47% at the end of 2022. And for Q4 specifically, 65% of our incremental ARR came through the channel, compared to 72% for Q3.

To remind you, 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 saw throughout 2023.

Turning now to our customer retention rates. As I mentioned, adjusted for the impact of FX, our trailing 12-month gross retention rate for the fourth quarter was 87%, consistent with the first three quarters of 2023. And looking at our FX adjusted net retention rate, the strong contribution from our existing customer base led to another improvement in NRR versus the prior quarter, as this metric was 109% in Q4, compared to 108% at the end of Q3.

On a reported basis, Q4 GRR was 86%, an improvement from 85% we reported in Q3. NRR also improved on a reported basis in Q4 as we delivered 108% compared to 107% in Q3.

Turning back to the income statement. Gross profit for Q4 was $56.1 million, representing a gross margin of 75.2%, compared to 72.2% in Q4 2022. The year-over-year improvement in our gross margin is the result of our product mix with SaaS representing a higher portion and services representing a lower portion of our total revenues this quarter versus last year.

Moving down the income statement, operating expenses for Q4 totaled $45.8 million or 61% of revenues, compared to $44.5 million or 70% of revenues a year ago. As a result, Q4 operating income was $10.3 million. or an operating margin of 13.8% and ahead of our guidance. We are also pleased that Q4 was our first quarter as a public company to achieve operating profitability on a GAAP basis.

Turning to the balance sheet and cash flow. We ended the year with $226.9 million in cash and short-term investments. For the 12 months ended December 31, 2023, cash generated from operations was $34.7 million while free cash flow was $32.6 million. This compares to cash used from operations of $800,000 and free cash flow of negative $4.6 million in 2022.

We are pleased with the meaningful improvement in our cash flow generation, which combined with the strength of our balance sheet and the $30 million line of credit that we renewed with HSBC in November puts us in an even stronger position to effectively allocate capital.

As a reminder, our capital allocation priorities are the following. First, to invest in the business for continued growth. Second, pursuing inorganic growth opportunities either through strategic acquisitions or investments like the A3Ventures Fund, TJ discussed. And finally, share repurchases. For the full year 2023, we repurchased approximately $40 million of our common stock. And through the end of 2023, we have utilized approximately $60 million of the $150 million Board authorization.

In addition, we have repurchased $6.1 million of our common stock year-to-date in 2024. While our program remains open, we will continue to evaluate buybacks as well as other components of our capital allocation strategy in 2024.

Before I turn to our guidance, I'll briefly recap our full year 2023 results. Total revenues were $271.8 million, representing growth of 17%. Within total revenues, SaaS revenues were $161 million and grew 37%. For the full year, SaaS revenues represented 59% of total revenues, compared to 50% in 2022 and 45% in 2021.

As mentioned, total ARR as of December 31 was $264.5 million, representing growth of 23% on a reported basis and growth of 24% on an FX-adjusted basis. As a result, net new ARR for the full year was $49.8 million. This represents net new ARR growth of 5% on a reported basis and growth of 12% when adjusted for the $3 million of ARR we added in the 2022 tyGraph acquisition.

And as I discussed earlier, non-GAAP operating income for the year was $22.2 million or an operating margin of 8.1%, compared to a non-GAAP operating loss of $2.9 million in 2022.

Lastly, on a Rule of 40 basis, which for AvePoint is the sum of ARR growth and non-GAAP operating margin, we finished 2023 at 31% compared to 27% for 2022.

I would now like to turn to our outlook for the first quarter and the full year of 2024. For the first quarter, we expect total revenues of $71.4 million to $73.4 million, or approximately 22% year-over-year growth.

We expect non-GAAP operating income of $3.3 million to $4.3 million. For the full year, we expect total ARR of $314.7 million to $320.7 million, or approximately 20%

year-over-year growth. We expect total revenues of $308.6 million to $316.6 million, or approximately 15% year-over-year growth. And lastly, we expect non-GAAP operating income of $27.4 million to $30.4 million.

In summary, we are extremely proud of our fourth quarter and full year 2023 results, and we are equally excited about continued execution in 2024 and capitalizing on the long-term opportunity ahead of us.

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

Questions And Answers

Operator

(Question And Answer)

We will now begin the question-and-answer session. (Operator Instructions) At this time, we will pause momentarily to assemble our roster. The first question comes from Matt Materne with Evercore ISI, and -- I'm sorry, that is Kirk Materne. Please go ahead.

Q - Analyst

Hi. This is Chirag calling in for Kirk. Congratulations on the strong quarter, and thank you for taking the question. So TJ, are you seeing the increase in demand in AI and Copilot around Microsoft's product suite increase the volume of discussion and revenue opportunity in a significant way for AvePoint today, or are we still really early in the process? And when you think about the medium to long-term, how big of a tailwind or uplift do you think this will be for AvePoint's growth? Thank you.

A - Tianyi Jiang {BIO 20151191 <GO>}

That's a great question. So the overall macro backdrop hasn't really changed from quarter-to-quarter, but you're absolutely right in that there's tremendous conversations and POCs, proof of concepts, experimentation happening across the Board, across all countries and all customer segments.

We are involved in a ton of those types of conversations because our solutions are being utilized to enable AI project deployments, especially in the front end, which is data aggregation, cleansing, consolidation, removing out-of-date, trivial, redundant data, and classification, labeling. And then at the tail end, after the data model is being trained and continued to be updated to model after drifts in concepts, there's also data governance and security.

So a ton of experimentation happening. We have active campaigns around the world with Microsoft regional teams, with global partners, go-to-market partners. But right now, it's all experimentation, we see small group deployments, but not enterprise-wide deployments yet.

So right now, there's just a lot of activity. We need to be seeing whether this applies to a massive enterprise-wide deployments across the Board. Pretty much what your research also talk about, there's going to be a ton of experimentation, small uptake. But we think in the medium term, this will have a really big impact to AI adoption. Of course, AvePoint is core to that story around data management. So in the medium term, we're actually very bullish about the outlook.

Q - Analyst

All right. Thank you.

Operator

The next question is from Derrick Wood with Cowen & Company. Please go ahead.

Q - Derrick Wood {BIO 4963641 <GO>}

Great. Thanks. TJ, we've heard from many other companies that SMB demand has softened a bit over the last few months. It doesn't sound like you guys are seeing any of that. So I'm just curious, what you think kind of makes your spend more resilient than maybe other software vendors, especially down market?

A - Tianyi Jiang {BIO 20151191 <GO>}

Yeah. Great question. So our approach to SMB is really one of MSP, so managed service provider approach, where SMBs don't have IT, so they rely on managed service providers who actually help them go to cloud and manage all their digital assets in cloud, including things like Microsoft 365 subscriptions, their networks, all their kind of digital asset management.

The MSPs became the aggregator, if you will, and end user of our solutions. We actually have a product line for that segment called Elements. It's effectively a MSP singular portal where managed service providers were used to manage hundreds, if not thousands, of tenant data behind the scenes, whether it's data backup or operation management, entitlement management, allocation of licenses, et cetera. And we'll continue to invest in that area as the MSPs continue to become a big segment and view us as a strategic partner.

So for us, because of that, that intermediation, we actually see continued very fast growth. That is our fastest growing segment. And that market is actually quite large. So we have even small MSPs, less than 50 employees that would do 1 million ACV with us on a yearly basis because they are so actively using our solution to lower their costs, improve their margins, at the same time providing enterprise-grade data management capabilities for SMB customers.

So yeah -- so I think that's why we're not seeing what you articulated, if vendors have more of a direct relationship with SMB customers. At the same time, this is also, as we articulated over the last few quarters, this is really a greenfield segmentation for us because Apple came from a very large enterprise and regulated industry segment. So we're truly taking the enterprise-grade SaaS experience and performance and quality to make it available to SMB segment.

And that's a really good winning formula along with our platform play. So yeah, I think overall, we'll continue to see very strong demand in that segmentation.

Q - Derrick Wood {BIO 4963641 <GO>}

Helpful color. Maybe one for you, Jim. 17% growth in Q4, you're guiding 22% in Q1 and then 15% for the full year. Is that the shape of that growth curve really just because of the seasonal mix around term and kind of how SaaS is flowing through in a different way that term does seasonally or any other dynamics to call out with how that shape of the growth curve looks like for fiscal '24?

A - Tianyi Jiang {BIO 20151191 <GO>}

(Technical Difficulty) how many effect as we're shifting more and more of our revenue to SaaS up from 50% to 59%. So as that rolls then into Q1 of this year, we get the benefit of that. So we're seeing that nice pickup. And then again, over the course of the year, we've seen that throughout the year. So that'll be less of an impact for future quarters. But, again, we're seeing nice shift to SaaS and really less and less churn and less and less services. So again, I think that makes it more predictable for us, which is great and gives us more confidence in that outlook over the years.

Q - Derrick Wood {BIO 4963641 <GO>}

Great. Thanks, and congrats.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thanks, Derrick.

Operator

(Operator Instructions) At this time, we have no further questions. So this concludes the question-and-answer session. I would like to turn the conference back over to TJ for any closing remarks.

A - Tianyi Jiang {BIO 20151191 <GO>}

Thank you. We're witnessing a historic shift in the business landscape, driven by the market environment and the technology revolution taking place. The excitement and opportunity are palpable in every interaction I've had so far this year with our teams, customers, and partners. The pace of change, which has always been fast in our industry, is accelerating even more. We have a clear strategy and plan to capitalize on the opportunities in front of us to accelerate the digital workplace for our customers and partners and help them collaborate with confidence and be AI ready in 2024. Thank you for joining us today.

Operator

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