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AnyCompany Tech Solutions.

Q3 2024 Earnings Call

Quarterly Results Discussion - AnyCompany Tech Solutions

Date: September 15, 2024

Participants:

- Mark Johnson – CEO
- Sarah Blake – CFO
- Raj Patel – COO
- Lisa Thompson – VP, Marketing
- Susan Lee – Head of Investor Relations
- Analysts: David Miller (Morgan Capital), Emily White (Global Investments), Robert Harrison (Silver Bridge)

Susan Lee (Investor Relations):

Good morning, everyone. Welcome to AnyCompany Tech Solutions' quarterly earnings call for Q3 2024. Before we begin, I'd like to remind everyone that during the course of today's call, we may make forward-looking statements based on current expectations. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed. The company undertakes no obligation to update such statements. You'll find a more detailed discussion of the risks in our filings with the SEC.

With that, I'll hand it over to our CEO, Mark Johnson.

CEO Overview: Mark Johnson

Mark Johnson (CEO):

Thank you, Susan, and thank you, everyone, for joining today's call. I'm pleased to report another strong quarter for AnyCompany Tech Solutions, driven by solid execution across our business units. Despite continued macroeconomic challenges, our diversified portfolio, innovative technology solutions, and expanding global footprint have enabled us to deliver resilient results.

Let me quickly go over some key financial highlights:

- Total revenue for Q3 came in at \$3.6 billion, representing a year-over-year growth of 12.3%.
- Gross margin expanded to 54.7%, up from 52.5% in the same period last year.
- Operating income increased to \$820 million, up 15% year over year.
- Our earnings per share (EPS) stood at \$1.35, up from \$1.20 in Q3 of last year.

We also continued to make progress on our strategic priorities: accelerating digital transformation for clients, expanding in high-growth markets, and driving operational efficiency across the board.

We saw excellent performance in our cloud services and cybersecurity divisions, with cloud services growing by 25% year over year, reflecting our clients' increasing adoption of hybrid and multi-cloud environments. Our cybersecurity business also saw significant growth, driven by heightened demand for robust data protection and security solutions in an increasingly complex threat landscape.

On the innovation front, we launched several new AI-driven products this quarter, focusing on enhancing automation and analytics capabilities for our enterprise clients. These products have been well received by both new and existing customers, which brings me to our customer wins this quarter. We onboarded over 150 new enterprise clients, including several Fortune 500 companies, which speaks volumes about our market leadership and the trust our clients have in us.

Lastly, I want to emphasize the progress we've made in sustainability. As part of our commitment to reducing carbon emissions, we've implemented several green initiatives across our data centers, contributing to a 10% reduction in our overall carbon footprint this year.

Now, I'll turn it over to Sarah to go deeper into the financials.

Financial Review: Sarah Blake

Sarah Blake (CFO):

Thank you, Mark. I'll walk you through the detailed financial performance for the quarter.

As Mark mentioned, total revenue was \$3.6 billion, a 12.3% increase compared to Q3 2023. This growth was largely driven by our cloud and cybersecurity divisions, which grew 25% and 18%, respectively, year over year.

Breaking it down by geography:

- North America remains our largest market, accounting for 55% of total revenue, with growth of 10%.
- Europe contributed 30% of our revenue, with a strong 15% year-over-year growth driven by increased demand for digital transformation solutions.
- In the APAC region, we saw revenue growth of 20%, particularly from markets like India, Australia, and Singapore, where we've significantly expanded our operations in the last 12 months.

In terms of profitability, gross margin expanded to 54.7%, an improvement of 220 basis points year over year. This margin expansion was driven by improved operational efficiencies, higher contribution from our higher-margin cloud business, and disciplined cost management. Operating income for the quarter stood at \$820 million, representing a 15%

year-over-year increase, and our operating margin came in at 22.8%, up from 21.5% last year.

On the balance sheet side, we continue to maintain a strong liquidity position. Cash and cash equivalents totaled \$1.9 billion at the end of the quarter, with free cash flow of \$600 million. Our leverage ratio remains low at 1.2x, providing us with ample flexibility for future investments and shareholder returns.

Turning to our capital allocation strategy: We repurchased \$200 million worth of shares this quarter, as part of our ongoing \$1 billion share repurchase program. Additionally, we declared a quarterly dividend of \$0.50 per share, reflecting our commitment to returning capital to shareholders while maintaining financial flexibility for growth initiatives.

In terms of guidance, we are raising our full-year revenue growth outlook to 11-13%, up from our previous guidance of 9-11%. We also expect adjusted EPS to be in the range of \$5.25 to \$5.40, up from our previous range of \$5.10 to \$5.25.

With that, I'll hand it over to Raj to talk about operational highlights.

Operational Overview: Raj Patel

Raj Patel (COO):

Thank you, Sarah. From an operational standpoint, we had a highly productive quarter, and I'd like to highlight some key areas.

First, our cloud and cybersecurity businesses have been standout performers. We continue to see strong demand for our cloud migration and infrastructure services as more clients embrace hybrid and multi-cloud models. Our partnerships with leading cloud providers, including Microsoft Azure, AWS, and Google Cloud, have allowed us to deliver integrated solutions that drive significant value for our clients.

In cybersecurity, we're addressing the growing need for end-to-end security solutions that cover everything from threat detection to data recovery. This quarter, we launched our new AnyCompany Security Suite, which includes AI-based threat detection and automated response systems. The reception from clients has been overwhelmingly positive, and we've already secured several large contracts with financial institutions and healthcare organizations.

Our customer satisfaction scores remain at an all-time high, with our Net Promoter Score (NPS) improving to 72 this quarter, up from 68 last year. This is a testament to our relentless focus on customer experience and operational excellence.

We've also made significant progress in our global expansion strategy. In the APAC region, we opened new offices in Singapore and expanded our delivery centers in India. These

moves are helping us capture new market opportunities and serve our global clients more effectively.

On the talent front, we've been investing heavily in reskilling and upskilling our workforce. We introduced a new AI and cloud certification program for our employees, and over 5,000 employees have already completed the training. This is crucial as we continue to pivot towards higher-value services like AI, machine learning, and advanced analytics.

Lastly, we've been leveraging automation to drive operational efficiency. By implementing AI-based tools across our delivery centers, we've been able to streamline processes, reduce manual interventions, and enhance productivity. This has resulted in a 5% reduction in our overall operational costs this quarter, which has been a key driver of our margin expansion.

Market Outlook: Lisa Thompson

Lisa Thompson (VP, Marketing):

Thank you, Raj. I'd like to take a few minutes to discuss the market trends we're seeing and how we're positioning ourselves for future growth.

The digital transformation journey for most enterprises is far from complete, and the market opportunity remains significant. According to industry estimates, global spending on digital transformation will exceed \$2.3 trillion by 2025, with key drivers including cloud adoption, cybersecurity, AI, and IoT.

In cloud, we expect the shift toward hybrid and multi-cloud architectures to accelerate, as enterprises seek flexibility, scalability, and cost efficiency. Our cloud portfolio is well-positioned to capitalize on this trend, with offerings that cover everything from infrastructure management to cloud-native app development.

Cybersecurity continues to be a critical priority for organizations, especially in light of increasing cyberattacks and regulatory pressures. Our cybersecurity division is growing rapidly, and we're seeing strong demand for our end-to-end security solutions, particularly in highly regulated industries like healthcare, financial services, and government.

AI and automation are other key growth areas. With our recent product launches, we're helping clients unlock the full potential of AI to drive business insights, automate workflows, and improve decision-making. We're also seeing increased interest in our AI-driven analytics platforms, which enable organizations to derive actionable insights from their data.

From a geographic perspective, we see high growth potential in the APAC and EMEA regions. In APAC, we're particularly focused on India, where digital adoption is accelerating at a rapid pace, and we've made significant investments to expand our footprint there.

Looking ahead, we're confident in our ability to sustain growth by continuing to innovate, expand our customer base, and strengthen our leadership position in key markets.

Q&A Session

Susan Lee (Head of IR):

Thank you, Lisa. We'll now open the floor for questions. Operator, please go ahead.

Operator:

Thank you. Our first question comes from David Miller from Morgan Capital. David,

Q1: David Miller (Morgan Capital): Thank you for the detailed overview. Can you elaborate on the factors driving the strong growth in your cloud services division? What specific strategies are you implementing to maintain this momentum?

A1: Mark Johnson (CEO): Certainly, David. The growth in our cloud services division is primarily driven by the increasing demand for hybrid and multi-cloud solutions. Clients are looking for flexibility and scalability, and our partnerships with leading cloud providers have allowed us to deliver integrated solutions. We are also focusing on enhancing our service offerings, including cloud-native application development and managed services, to meet the diverse needs of our customers.

Q2: Emily White (Global Investments): You mentioned a significant expansion in the APAC region. Can you provide more insight into the specific markets you're targeting and the expected impact on revenue in the next few quarters?

A2: Raj Patel (COO): Absolutely, Emily. We're particularly focused on markets like India, Singapore, and Australia. India, in particular, has shown rapid digital adoption, and we expect it to become one of our key revenue drivers. Our recent investments in local offices and delivery centers are aimed at enhancing our service capabilities and tapping into this growing demand.

Q3: Robert Harrison (Silver Bridge): You indicated a reduction in operational costs this quarter. Can you discuss the specific initiatives that led to this improvement and whether you anticipate continuing this trend?

A3: Raj Patel (COO): The reduction in operational costs was largely driven by our implementation of AI-based automation tools across our delivery centers. By streamlining processes and reducing manual interventions, we've enhanced productivity. We believe there are still further efficiencies to be gained, so we will continue to invest in automation and process improvement initiatives going forward.

Q4: David Miller (Morgan Capital): With the increasing focus on cybersecurity, how do you plan to differentiate your cybersecurity offerings from competitors in the market?

A4: Mark Johnson (CEO): Great question, David. Our differentiation lies in our end-to-end security solutions that leverage AI for threat detection and automated response. We focus

on industries with stringent regulatory requirements, such as finance and healthcare, where our tailored solutions can provide significant value. Additionally, our integration with existing IT infrastructure ensures a seamless experience for our clients.

Q5: Emily White (Global Investments): You've raised your full-year revenue growth outlook. What specific factors contributed to this more optimistic outlook?

A5: Sarah Blake (CFO): Our increased outlook is based on stronger-than-expected demand across all our divisions, particularly in cloud and cybersecurity. We also see a favorable pipeline of new contracts and client renewals that support this growth. Furthermore, our investments in innovation and expansion have positioned us well to capture market opportunities.

Q6: Robert Harrison (Silver Bridge): Can you share more about the customer wins mentioned earlier? What are the typical profiles of these new clients?

A6: Lisa Thompson (VP, Marketing): Certainly, Robert. The new clients we onboarded include a mix of Fortune 500 companies and mid-sized enterprises across various sectors, including financial services, healthcare, and retail. Many are seeking comprehensive solutions for digital transformation, and our ability to offer tailored services that address their unique challenges has been key to our success.

Q7: David Miller (Morgan Capital): Regarding your sustainability initiatives, can you provide more details about the specific steps you're taking to reduce your carbon footprint?

A7: Raj Patel (COO): We've implemented several green initiatives, such as optimizing energy use in our data centers, utilizing renewable energy sources, and enhancing our recycling programs. We also encourage remote work and digital solutions to reduce travel-related emissions. These steps have collectively contributed to a 10% reduction in our carbon footprint this year.

Q8: Emily White (Global Investments): Can you discuss your plans for future product development, particularly in AI and automation? What can we expect in the coming quarters?

A8: Mark Johnson (CEO): We have an aggressive roadmap for product development in AI and automation. In the coming quarters, we plan to launch new features that enhance our existing products' capabilities, as well as entirely new solutions focused on industry-specific applications. Our goal is to empower clients with tools that drive efficiency and actionable insights.

Q9: Robert Harrison (Silver Bridge): How do you view the competitive landscape in your industry, especially with new entrants and technological advancements?

A9: Sarah Blake (CFO): The competitive landscape is certainly evolving, with new entrants and established players focusing on innovation. However, our strong brand reputation, extensive experience, and commitment to R&D give us a competitive edge. We continuously

monitor market trends and customer needs to ensure we remain ahead of the curve and can adapt to changing dynamics.

Q10: David Miller (Morgan Capital): Lastly, what key performance indicators (KPIs) do you focus on to gauge the success of your strategic initiatives?

A10: Lisa Thompson (VP, Marketing): We track several KPIs, including revenue growth, customer acquisition rates, customer satisfaction scores (like NPS), and operational efficiency metrics. We also monitor market share in key segments and our innovation pipeline's effectiveness. These indicators help us assess the impact of our strategies and make data-driven decisions.