NASDAQ:PLUS Q2 2025 Earnings Call Transcript

Generated on 6/10/2026

Operator | Conference Operator:

Good day, ladies and gentlemen. Welcome to the E-plus Earnings Results Conference Call. As a reminder, this conference call is being recorded. I would like to introduce your host for today's conference, Mr. Clay Parkhurst, Senior Vice President. Sir, you may begin.

Clay Parkhurst | Senior Vice President:

Thank you for joining us today. I'm on the call with Mark Marin, CEO and President, Darren Raguel, COO and President of E-plus Technology. Elaine Marion, CFO, and Erica Stoker, General Counsel. I want to take a moment to remind you that the statements we make this afternoon that are not historical facts may be deemed to be forward-looking statements and are based on management's current plans, estimates, and projections. Actual and anticipated future results may vary materially due to certain risks and uncertainties detailed in the earnings release we issued this afternoon and our periodic filings with the Securities and Exchange Commission including our most recent annual report on Form 10-K, quarterly reports on Form 10-Q, and other documents we may file with the SEC. Any forward-looking statement speaks only as of the date at which the statement was made, and the company undertakes no responsibility to update any of these forward-looking statements in light of new information, future events, or otherwise. In addition, we will be using certain non-GAAP measures during the call. We've included the GAAP financial reconciliation in our earnings release, which was posted on the investor information section of our website at www.eplus.com. And now I'd like to turn the call over to Mark Merritt. Mark?

Mark Marin | CEO and President:

Thank you, Clay, and good afternoon, everyone. Thank you for joining us to discuss our fiscal second quarter 2025 results. I will recap our second quarter highlights and provide an update on our business. Then Elaine will discuss our financial results in more detail. I will conclude our prepared remarks with a discussion on our outlook. After that, we'll open the call to your questions. We continue to expand our solution and service offerings with the acquisition of Bailiwick. This, along with our strategic initiatives focusing on AI, cloud, networking, data, and security, has allowed us to build on our strong customer relationships, which was reflected in our year-over-year increases in gross profit and gross margin expansion. As we've noted before, the overall IT market is transforming and we are transitioning with it. More specifically, our revenue in a quarter reflects the ongoing evolution of the industry towards radical revenue models, netted down revenues, and the continued high growth of our services business, along with an overall softening in the demand in the market currently. On a consolidated basis, total net sales were down 12.3% as a decline in product sales offset the strong growth in higher margin services revenues. The decline is attributable to a few things. A tough compare as last year benefited from an easing supply chain, especially in networking. To put this in perspective, product sales in our technology business last year were up 23.3% in our second quarter and up 26.2% in the first half. We also had a higher proportion of netted down revenues in our product sales segment. The gross to net adjustment for product billings was up 940 basis points. As discussed on our last call, we continue to see a shift towards services contracts and more software subscription sales versus prior years. And these are often recognized randomly and can increase the proportion of revenue recognized on a net basis. Gross profit outperform sales, increasing 2.5%, while our gross margins increased 410 basis points, driven by continued strength in services, higher product margins, as well as a solid contribution from the financing segment. SG&A expenses were higher year on year, primarily due to increased headcount from the bailiwick and peak acquisitions, as well as increased acquisition-related costs. In our technology business, reflecting on the tough comp, we saw softer than expected hardware product sales overall and lower demand from certain enterprise customers as they continue to digest purchases from last year's flush. As a result, we have seen a delay or pause in rolling out new technologies for these customers. Our service revenues continue to deliver strong growth, increasing 46% year-on-year and reaching a new high of $104 million in the quarter, which included contribution from Bailiwick. Managed services revenue continue to grow nicely, up 28% year-over-year, all organically, and total managed service bookings are up 48% over the trailing 12 months. This bodes well for Eplus by helping to create predictable, profitable, and more consistent revenue streams. Our finance business delivered a solid quarter with higher transactional gains benefiting from some large deals and portfolio gains. An important accomplishment in the quarter was the acquisition of DailyWik, a provider of outsourced IT integration and deployment services across North America. Bailiwick has expanded our IT integration services to focus on AI, digital signage, and EV charging for clients in retail, finance, and hospitality. Although Bailiwick was a small contributor during the quarter, as the company was acquired at the end of August, it further broadens our portfolio to meet evolving customer demand. Importantly, it also expands our footprint in North America and our customer base, offering enhanced digital transformation capabilities into additional verticals, particularly in the enterprise segment. Bailiwick also has some additional capabilities leveraging AI to streamline operations through intelligent video surveillance with a strong focus on loss prevention solutions in the retail space, as well as digital lock solutions, which uses AI to analyze live video feeds to generate actionable recommendations. We are encouraged by the progress we have made against our artificial intelligence initiatives and the interest we are seeing from customers for our AI Ignite program. While we are excited about the promise of AI, we believe it has elongated some sales cycles. To better position Eplus for the AI market opportunity, we have trained our entire sales teams on our AI solutions and services. We also just launched our AI Experience Center with Digital Realty. This cutting-edge technology center will demonstrate to customers the building and consuming of AI use cases. It is designed to help accelerate an organization's AI journey. In addition to the technology demonstrations, customers can also take advantage of the suite of E-Plus Ignite assessments and workshops. These are designed to help them understand their level of AI maturity and what solutions best match their goals. This can include helping to identify use cases, define success criteria, assess their AI preparedness, and rapidly deploy proof of concepts. to ultimately help our customers make informed decisions on their AI investments and unlock maximum value from their data. We continue to see growth in our security practice. Our security gross billings were up 15.8% for the quarter, and it's now 21.4% of our trailing 12 months gross billings. We would expect customers to continue to invest in data security and governance risk initiatives related to AI. Overall, our balance sheet and cash position provides financial flexibility to support future growth initiatives. Our capital allocation priorities remain funding investments to drive organic and inorganic growth and opportunistically repurchase shares to provide value to our shareholders. I will now turn the call over to Elaine to discuss our financial results in more detail. Elaine?

Elaine Marion | CFO:

Thank you, Mark, and thank you everyone for joining us today. I will review our financial performance in the second quarter of fiscal 2025. Our consolidated net sales were $515.2 million compared to $587.6 million in the second quarter of fiscal 2024. Net sales in our technology business were $493.3 million versus $571.9 million in the same period of the prior year. Gross billings declined at a more modest pace of 5.6%, evidencing the effect of a larger proportion of netted down revenues in the quarter. The year-over-year declines primarily reflect lower product sales in the technology business. Product sales faced a tough comparison against the prior year as results in the second quarter of the last year saw outsized benefits from an easing supply chain, particularly in networking products. We saw lower demand from enterprise customers as they continue to digest products we delivered as part of last year's supply chain flush, as Mark mentioned. Service revenue grew 46% in the quarter, driven by both professional and managed services. Professional services benefited from our acquisition of Bailiwick, as well as an increase in organic demand, while our managed services business saw continued momentum in enhanced maintenance support and cloud services.

Shifting to our customer vertical, sales within our technology business remain broad-based. Telecom, media, and entertainment, and technology are two largest verticals represented 25% and 18%, respectively, of our technology business net sales on a trailing 12-month basis. SLED, healthcare, and financial services accounted for 15%, 13%, and 9%, respectively, with the remaining 20% divided among other end markets. Financing segment net sales were 21.9 million, up from 15.7 million in the prior year quarter, primarily due to higher transactional gains as we benefited from several large transactions. Despite the decline in consolidated net sales, gross profit grew 2.5% year-over-year to 148 million, led by a solid quarter from our financing segment and supported by continued strength in services. As Mark noted, our revenue mix shifted toward third-party maintenance and subscription sales in the quarter, which are recognized on a net basis. This increased our growth margin while negatively impacting product revenue. Product growth margin from the technology business expanded 200 basis points, contributing to a consolidated growth margin of 28.7% up from 24.6% in the prior year. Professional services growth margin remained consistent at 41.3%, while managed services growth margin declined to 29.5% from 31.1% due to higher third-party costs. Consolidated operating expenses of $105.3 million rose 5.8% year-over-year primarily due to increased headcount as a result of the bailiwick and peak resources acquisitions, as well as increases in acquisition-related expenses. At the end of the quarter, our headcount was 2,323, up 446 from a year ago, including 441 employees from our acquisition of Bailiwick and 24 from our acquisition of Peak Resources. Other income increased to 600,000 as higher interest income of 2.4 million was offset by foreign exchange losses of 1.8 million. Operating income decreased 4.8% to 42.7 million, And earnings before taxes decreased 3.7% to $43.3 million. Our effective tax rate was 27.7%, similar to 27.4% a year ago. Consolidated net earnings were $31.3 million, or $1.17 per share, representing a decrease of 4.1% from the prior year quarter. Non-GAAP diluted earnings per share decreased 2.9% to $1.36. Our diluted share count at the end of the quarter was 26.7 million, unchanged from the prior year. Consolidated adjusted EBITDA totaled 52.1 million, down from 53.6 million in the second quarter of fiscal 2024. Moving to our consolidated results for the six months ended September 30, 2024, consolidated net sales were 1.06 billion, compared to 1.16 billion in the prior year. The increase in netted down revenues was responsible for about half of the decrease in the net sales on a year-to-date basis. Technology business net sales were 1.03 billion for the first six months of fiscal 2025, down from 1.14 billion in the same period last year. Gross billings in the technology segment declined 3.3% to 1.64 billion. Consolidated gross profit was 282.5 million. below the $286.6 million reported in the first half of fiscal 2024. Consolidated gross margin increased 200 basis points to 26.7% led by a favorable mix in the product segment and increased services revenue. Consolidated net earnings were $58.6 million or $2.19 per diluted share compared to $66.5 million or $2.49 per diluted share. Non-GAAP earnings per share were $2.50 versus $2.81 in the comparable period last year. Adjusted EBITDA was $95.3 million, down from $107.4 million. Taking a look at our balance sheet, cash and cash equivalents totaled $187.5 million at the end of the quarter compared to $253 million at March 31, 2024. The decline reflects working capital needs, the bailiwick acquisition, and the repurchase of common stock. Operating cash flow for the first half of the year was 75.5 million compared to 10.3 million in the last year. We ended the quarter with 93.9 million in inventory, down from 139.7 million at the end of fiscal 2024. Inventory turns were 12 days, down from 14 days in the prior sequential quarter, and 29 days in the prior year. This improvement helped reduce our cash conversion cycle to 32 days compared to 51 days in the prior year. During the first half of the fiscal year, we repurchased 250,234 shares under our repurchase plan at a cost of $19.8 million. It's important to note for modeling purposes, our acquisition of Bailiwick will primarily contribute to professional services revenue, not product sales. and will also increase acquisition-related amortization expense for the second half of the fiscal year. As a result, we expect the bottom line contribution on a GAAP basis to be minimal for this initial period. Overall, we remain committed to executing on our core priorities, investing in organic growth initiatives, expanding through accretive acquisitions, and delivering shareholder returns through our repurchase program. With that, I will turn the call back over to Mark.

Mark Marin | CEO and President:

Thank you, Elaine. We are encouraged by the growth that we are experiencing in our services segment, including our managed service bookings, which bodes well for a longer-term growth, profitability, and visibility of the business. Our future investments will continue to be targeted towards faster-growing markets, including AI, security, and related software and services. Some of these solutions are still in the early stages with exciting growth opportunities ahead. Now turning to our fiscal 2025 financial outlook. Overall for the year, we expect positive comparisons for sales and earnings. Based upon first half results, we are modifying our 2025 guidance to adjusted EBITDA in the range of $195 million to $205 million. We are also tightening our guidance range for net sales to be similar to last fiscal year, which reflects the difficult compare we experienced for product sales higher gross to net as the industry transitions, and economic uncertainty. Our broadening portfolio of IT products, solutions, and services, coupled with our solid backlog and healthy balance sheet, will enable us to continue to deploy capital with discipline, focused on delivering long-term, sustainable, profitable growth, creating value for our shareholders. Operator, let's open the line for questions.

Operator | Conference Operator:

Thank you. We will now begin the question and answer session. At this time, I would like to remind everyone in order to ask a question, press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster. Your first question comes from the line of Greg Burns with Sidoti & Company. Please go ahead.

Greg Burns | Analyst at Sidoti & Company:

Greg Burns Good afternoon. Just in terms of the product product sale demand or product demand you saw in the quarter. The technology flush that you mentioned last year, it seemed like maybe some of your technology partners had already moved past that. And maybe this is like a delayed impact on your business. I'm just trying to get a sense of like where we are in terms of that headwind and What your sense is, is this like a one-quarter issue that we moved past in the second half? What are you seeing in terms of that impact on demand and maybe just the broader macro environment in terms of enterprise spending?

Mark Marin | CEO and President:

Yeah. Hey, Greg, it's Mark. How are you? So a couple different things. There's still a lot of economic uncertainty going on. The election was one thing, right? If you look at the product or hardware sales that you're talking about, they were definitely softer than expected. And that's been seen kind of across the entire IT market. There were a couple things that we knew going into this quarter. One, we knew we had a really tough compare. If you remember, our product sales were up over 23% in Q2 last year and up 26% in the first half last year. So we kind of knew we had the tough compare. The other thing that came into play besides the software demand on hardware saw a little bit of pause, if you will, or delay in the enterprise segment. So we think some of that is those customers consuming technology. The good news is we didn't lose them. I also have a personal belief that I think AI right now is a little bit of a headwind in that space where a lot of customers are evaluating what to do but haven't made decisions. And then the last thing related to that that really was outside or norm if you will was the gross to net or netted down revenues on that on those product sales which was a difference of about 940 basis points and that's about rough numbers about 60 million of product sales difference uh greg so that those would be the different factors for the quarter okay thanks um when we look at um just the the bailiwick acquisition uh how much revenue is

Greg Burns | Analyst at Sidoti & Company:

Is that going to contribute for the updated guidance for revenue this year? And maybe if you could just talk about their growth rate and margin profile relative to your own.

Mark Marin | CEO and President:

Yeah, so I'll start with the margin profile. The margin profile is in line with E+. It's in the range, if you will. It was immaterial in Q2. Looking at the second half, you're looking at approximately $85 million in terms of towards a guidance. Here's what I tell you that they bring that we're excited. One is it expands our offerings into core to edge space. And what that means, we're able to go back to our customers in terms of how they communicate data between the stores and the corporate offices. And a lot of companies are trying to push more things out to the edge and closer to the end user. They've got some great enterprise customers that we think we can cross-sell and up-sell in over time. And also, as part of our strategy, it expands our, I'll say, our services and solutions offerings that we can take to market. The one thing I'd put as a little bit of a caveat, Greg, is like any acquisition, it normally takes time for its early innings on this for them to adjust and get it acclimated to E-plus and vice versa.

Greg Burns | Analyst at Sidoti & Company:

Okay. And then the organic professional services growth this quarter?

Mark Marin | CEO and President:

You know, I don't know off the top of my head on professional services. I would say it's in the 6% to 8% range in terms of organic. The rest was bailiwick. On the annuity services, the managed services side, we were actually up 28% on that, Greg. And what's nice about that, when we kind of look at it overall, the trailing 12 months gross billings were up actually 48%, so it bodes well for our business. So, annuity continues to thrive. Professional services was in the 6% to 7% range in terms of organic, and the rest was bailiwick.

Greg Burns | Analyst at Sidoti & Company:

All right, great. Thank you.

Operator | Conference Operator:

No problem. The next question comes from the line of Victor Santiago with TESOL. Please go ahead.

Victor Santiago | Analyst at TESOL:

Good afternoon. This is Victor on for Matt Sheeran. Thanks for taking my question. Maybe real quick, just to follow up on the Ballywick acquisition, how should we think about the OpEx impact kind of going forward? It looks like it ticked up a little bit in the quarter with just over a month of ownership, so hoping to get some color there.

Mark Marin | CEO and President:

Yeah, Victor, it's Mark. I would expect that to uptick in Q3 because you'll have the full quarter of headcount as well as acquisition-related expenses, so I would expect that to uptick in Q3 for sure.

Victor Santiago | Analyst at TESOL:

Got it. And on gross margin, it looks like kind of backing into your guide, it looks like gross margin should take kind of a little bit of a sequential drop down over the next two quarters. And it looks like you should see some sequential product sales as well. So is that kind of the right way to think about gross margin, maybe the impact of more hardware kind of weighing down what you saw in Q2 from services?

Mark Marin | CEO and President:

Yeah, I think that's probably fair, Victor. If you look at the gross margins, we were up 410 basis points, so it was a pretty big swing, if you will, on this quarter. I would think it's safe to say, based on the guidance, that both product sales and services would be up in the second half, and the margins would be a little bit tighter than what it was this quarter.

Victor Santiago | Analyst at TESOL:

Great, thanks. That's all I had.

Mark Marin | CEO and President:

All right. Thanks, Victor.

Operator | Conference Operator:

The last question comes from the line of Maggie Nolan with William Baer. Please go ahead.

Kate Kronstein | Analyst:

Hi, everyone. Thanks for taking my question. It's Kate Kronstein. I'm from Maggie. Can you guys talk about what assumptions you've made around the MACRO in the updated outlook and just provide a little bit more detail there?

Mark Marin | CEO and President:

So, okay. Hey, Kate. It's Mark here. How are you? So, I would think MACRO, we'd expect some hardware challenges next quarter made in Q3, and then it would expect it to pick up. The other thing is we, for a third quarter, we had a tough compare for our finance. So I'm trying to work through both the quarter and the year. The wild card is the gross to net, which had a big, big effect this quarter. I would think when you think about some of the things as it relates to election and stuff, I think it's a little bit early on that in terms of the tariffs and how that may affect things. In the past, we've been able to pass that on to customers. You know, interest rates, if they're going to be affected or not, could improve buying power and, you know, improve growth, if you will. Trying to think of what else as it relates to that. I think that's most of it, Kate. Anything I missed or? Yeah. AI spending, you know, right now, Kate, it's a headwind. It's an exciting time on AI. We continue to expand our capabilities in that space. We just built out an AI briefing center. Uh, but I think it's real early innings there and over time we'd expect to see some upside there.

Kate Kronstein | Analyst:

Okay, great. Thank you, Mark. And then just 1 more question for me. Is there any early client feedback that you've received on the value acquisition that you can share?

Mark Marin | CEO and President:

I personally haven't heard anything I can tell you internally. Everybody's excited about the team that we picked up. They, we feel like they're very at the management level. Very professional. The offerings and the customer base that they have is, uh. pretty significant, so we feel good about everything that we've heard. There's been some deals that they've brought forward that Darren and Elaine have been involved in in terms of working through the process, but so far it's been nothing but positive related to bailiwick.

Kate Kronstein | Analyst:

Okay. Great to hear. Thank you.

Mark Marin | CEO and President:

All right. Thanks, Kate.

Operator | Conference Operator:

That concludes our Q&A session. I will now turn the conference back over to Mark Marin. CEO for closing remarks.

Mark Marin | CEO and President:

Thank you. Thank you everyone for joining us today. We appreciate you taking the time to listen to our earnings call. I'd like to make an early announcement to wish everybody a happy and healthy holiday season as well. Thanks for joining us and we look forward to speaking with you in February. Enjoy the holidays.

Operator | Conference Operator:

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.