NASDAQ:PLUS Q4 2025 Earnings Call Transcript

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Clay | Call Moderator:

Thank you for joining us today. On the call is Mark Marin, CEO and President, 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 filing to 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 of which the statement is 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, and we've included a GAAP financial reconciliation earnings release, which is 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. Mark?

Mark Marin | CEO and President:

Thank you, Clay. Good afternoon, everyone, and thank you for joining our fourth quarter and fiscal year 2025 earnings call. Our financial results continue to reflect the ongoing industry-wide shift towards ratable and subscription-based revenue models, which impacts how we recognize product revenue. In fiscal year 2025, we delivered higher gross profitability and margin expansion on lower net sales and gross billings. In our fourth quarter, operating metrics were strong with double-digit increases in gross profit, operating income, adjusted EBITDA, and diluted earnings per share. We also saw continued improvement in our gross margin, which increased 270 basis points since fiscal year 2024. During the quarter, we believe sales were slightly impacted by business uncertainty surrounding the tariffs and government spending. With our strong focus on services-led solutions, continuing to build out our security and AI capabilities that are in high demand by our customers, and holding the line on expenses, we believe we are well positioned for future growth. Q4 net sales declined 10.2% year-over-year, driven primarily by a reduction in product sales due in part to economic uncertainty, as well as a tough compare to the prior year, when Q4 last year benefited from supply chain easing of networking product orders. Despite an increased gross-to-net adjustment caused by the industry-wide shift towards ratable and subscription-based revenue models, we saw strength in several areas. Gross profit rose by nearly 12% and gross margin expanded 580 basis points year over year to 29.3% in the fourth quarter due to a more profitable business mix between product and services and a higher proportion of netted down revenue. Gross profit increased and margin expanded in the full year for the same reasons. Our services revenue continued its rapid growth, increasing 33% in the quarter and 37% for the year. This is a key component of our trusted advisor status to our customers, which deepens the relationship and results in long-term customer loyalty. Our managed services continue to grow nicely up 16.6% for the quarter and 24.6% in the year, which provides predictable long-term revenue and profitability. Let me take a moment to discuss our long-term strategy, which is centered on delivering solutions across four key growth focus areas, AI, cloud, security, and networking, of which we expect to drive related consultative, professional, and managed services growth. We are making strategic investments in the most promising opportunities, both organic and inorganic, to expand our capabilities and meet evolving customer needs. AI adoption continues to be a significant potential business driver, and we are particularly well positioned to capitalize on its transformative growth across our expanding suite of products. Throughout the past year, we have discussed the positive reception from our customers of our AI Ignite workshops and envisioning sessions. These are designed to share the latest AI trends and insights and demonstrate how this revolutionary technology can empower our customers' businesses. We combine these AI Ignite offerings with our AI Experience Center and our generative AI accelerator solution that helps customers navigate and rapidly test use cases in a secure private instance. We also believe E-Plus is the only NVIDIA partner in North America that has achieved both the NVIDIA DGX Ready SuperPOD specialization and DGX Ready Managed Service Providers specializations. This achievement demonstrates our engineering expertise for enterprise-grade AI infrastructure deployments and capabilities to provide end-to-end lifecycle services from initial design through implementation and management of AI workloads. And finally, as the capabilities and benefits of AI become more clear, we have stepped up our AI investments to meet our internal business needs as well. We have seen how AI can support our customers better, automate some internal processes, and provide real-time information for our sales teams to leverage and provide value to their customers. Security remains a standout for E+. On a trailing 12-month basis, it now represents 22% of gross billings, underscoring our success in aligning with enterprise priorities around digital risk mitigation, and will only be more relevant as AI becomes more prevalent in the market. In conclusion, we have a very strong balance sheet, which gives us the opportunity to make strategic investments both organically and through acquisitions. We exited the year with a record-cast position of approximately $389 million. This financial flexibility provides a solid foundation as we navigate macroeconomic uncertainty and supports our growth initiatives. As always, we remain committed to discipline capital allocation and driving long-term shareholder value. I will now turn the call over to Elaine to discuss our financial results in more detail.

Elaine Marion | CFO:

Thank you, Mark, and thank you, everyone, for joining us today. I will provide additional details about our financial performance in the fourth quarter of fiscal 2025 and review our full fiscal year results, which ended March 31, 2025. Consolidated net sales in the fiscal 2025 fourth quarter were $498.1 million, down from $554.5 million in the fourth quarter of fiscal 2024. And our consolidated adjusted EBITDA was $43.8 million, up from $36.8 million in the prior year, which exceeded our expectations as we captured increased gross profit from the sales of product. Technology business net sales declined 10.4% year-over-year to $487.2 million, reflecting lower product sales, which continue to be impacted by the industry-wide shift towards ratable and subscription-based services, resulting in more netted-down revenues. Product sales also faced a tough year-over-year comparison as the fourth quarter of fiscal 2024 benefited from elevated deliveries of networking products. partially offsetting the decline in product sales with strong demand for our services offerings, which we have strategically emphasized and grown. ePLUS' services-led approach is evident in our results, as our service revenues increased 33% year-over-year. Professional services revenues were up 48% as the segment continues to benefit from the bailiwick acquisition, while revenues for our managed services rose 17%, led by sustained growth in enhanced maintenance support, or EMS, and cloud-managed services. Managed services bookings remain strong, underscoring our confidence in the segment. Technology business growth fillings declined 5.4% in the quarter due to softer demand from enterprise customers, as well as a challenging comparable in the prior period. Telecom Media and Entertainment and SLED were our two largest customer end markets, accounting for 23% and 17% of technology business net sales on a trailing 12-month basis. Technology, healthcare, and financial services accounted for 15%, 14%, and 9% respectively, with the remaining 22% from other end markets. In our financing segment, net sales rose 4.9% to 10.9 million, primarily due to higher transaction gains and portfolio earnings. Fourth quarter 2025 consolidated gross profit increased 11.8% to 145.8 million, representing a gross margin of 29.3%, comparing favorably to gross profit of 130.3 million and gross margin of 23.5% in the prior year fourth quarter. The increase in gross margin was led by our technology business, which saw product margin expand from 19.3% to 26.6%, reflecting more profitable mix and a larger proportion of sales of product that were recognized on a net basis, as well as additional gross profit from our services business. In our services business, professional services gross margin was 35.9% versus 50% in the comparable prior year period. DailyWIC, which we acquired in August of 2024, has lower professional services gross margin due to a higher concentration of third-party cost in the business model, contributing to the year-over-year decline. Managed services gross margin of 29.1% declined modestly from the 30.5% reported in a prior year due to an expanded mix of services provided. Fourth quarter 2025 operating expenses of $111 million increased 9.6% from the prior year quarter as we recognized costs related to increased headcount from the bailiwick acquisition. Our headcount at the end of the quarter increased to $2,199 from $1,900 a year ago reflecting an increase of 299 employees, of which 272 were customer facing. Sequentially, our headcount decreased from 2,291 at December 31, 2024. Benefiting from our strong margin performance, consolidated operating income and earnings before taxes rose 19.6% and 14.9% respectively. Other income totaled 1.1 million, driven by interest income of 2 million, partially offset by foreign exchange losses. Our effective tax rate in the fourth quarter was 29.7%, slightly higher than the 29.5% reported in the prior year quarter. Consolidated net earnings were up 14.6% to 25.2 million, or 95 cents per diluted share. versus net income of $22 million or $0.82 per diluted share a year ago. Non-GAAP diluted earnings per share was $1.11, representing an increase of 19.4% year-over-year, and weighted average diluted share count decreased slightly from the prior year's fourth quarter. Consolidated adjusted EBITDA increased 19.1% to $43.8 million, with 97% of the increase from our technology business. Moving on to our results for the full year of fiscal 2025. Consolidated net sales for the fiscal year were $2.07 billion, down from $2.23 billion in fiscal 2024. The decline was driven by a 13.7% decline in product sales, partially offset by 37.1% growth in services and strong performance in the financing segment. Technology business gross billings of $3.3 billion were down slightly year over year. Fiscal 2025 consolidated gross profit rose 3.3% to $569.1 million, led by growth in both the technology business and financing segment. Gross margin expanded 270 basis points to 27.5%, reflecting favorable product mix, a larger proportion of netted down revenues, and additional services revenue in the technology business. Operating income was $141.4 million versus $158.3 million a year ago. The decline was primarily a function of lower product sales and increased operating expenses, which rose 9% year over year due to the bailiwick and peak acquisitions, as well as continued investments in technology and customer-facing headcount. Our effective tax rate for the full year was 27.5% below the 28.1% reported in the prior year due to lower state taxes. Consolidated net earnings were $108 million or $4.05 per diluted share in fiscal 2025. This compares to $115.8 million or $4.33 per diluted share in the year-ago period. Non-GAAP diluted EPS amounted to $4.67 per share, down from $4.92. Fiscal 2025 adjusted EBITDA decreased 6.4% to $178.2 million. Our balance sheet remains solid with assets over $1.8 billion, highlighted by our cash position of $389.4 million at the end of fiscal 2025, well above $253 million at the end of fiscal 2024, reflecting strong operating cash flows of $302.1 million compared to $248.4 million in fiscal 2024. As of March 31, 2025, our inventories were $120.4 million. While inventories were higher sequentially, they were below $139.7 million reported at the end of fiscal 2024. Stockholders' equity was $977.6 million compared to $901.8 million at the end of fiscal 2024. During fiscal 2025, we repurchased more than 557,000 shares under our repurchase program, leaving 26.5 million shares outstanding at March 31, 2025. Our cash conversion cycle was 29 days compared to 46 days a year ago. As inventory days outstanding declined, from 23 days in fiscal 2024 to 14 days at the end of March 2025, highlighting a more normalized supply chain. Our strategy of focusing on high growth areas and anticipating our customers' needs continues to position us well for the future. We remain focused on strategic capital allocation with an eye toward organic and inorganic investments in an effort to add geographies and increase our service offerings. With that, I will turn the call back over to Mark. Mark?

Mark Marin | CEO and President:

Thank you, Elaine. Our core business is solid and our team is executing well. This is reflected in our financial results with solid gross profit growth and margin expansion. We continue to review our portfolio of products and services, identifying new sources of growth in our core markets. Our strong balance sheet provides us the opportunity to invest organically and make acquisitions when the right opportunity comes along. As always, we will continue to take a balanced and disciplined approach to building our company and evolving our business model for the future. Moving next to a comment about guidance, we are cautiously optimistic as we head into fiscal year 2026, but want to be prudent when considering the entire year and the trends we are experiencing with regard to ratable and netted down revenue. Today, we are initiating fiscal year 2026 guidance for net sales growth of low single digits while we expect gross profit and adjusted EBITDA to grow at mid single digits over the prior fiscal year. This guidance assumes some level of impact from economic uncertainty, but does not factor in recessionary conditions or other unexpected developments. To sum up, our strategic pivot towards services, subscriptions, and high-growth technology areas is gaining traction. We believe these foundations, combined with our financial strength and customer-first approach, position us well to support our customers' evolving and growing business needs. We believe we are well positioned for the opportunities ahead and remain committed to delivering value for all of our shareholders. Operator, please open the call for questions. Thank you.

Operator | Conference Call Operator:

Thank you. And we will now begin the question and answer session. If you have dialed in and would like to ask a question, please press star 1 on your telephone keypad to raise your hand and join the queue. If you would like to withdraw your question, simply press star 1 a second time. If you are called upon to ask your question and are listening via speakerphone on your device, please pick up your handset and ensure that your phone is not on mute when asking your question. Again, It is star one if you would like to join the queue. And our first question comes from the line of Greg Burns with Sedodian Company. Your line is open.

Greg Burns | Analyst, Sedodian Company:

Good morning or afternoon. Where is the demand environment currently? Did you see any improvement throughout the quarter? Are you still seeing soft demand on the product side of the business? Can you just maybe give us an update on what you saw during the quarter, how it evolved, and kind of where we are currently. Thank you.

Mark Marin | CEO and President:

Yeah. Hey, Greg. Good morning and good afternoon, okay? A couple different things we're seeing in the market. We are seeing pickup in the data center cloud and security space. That's not surprising. When you think about some of the AI initiatives that are going on, some of the things that folks have to think through is security in terms of governance and risk. uh, data readiness and things along those lines. They also make, uh, a lot of times the simple choices to move to the cloud. So we saw some nice pickup there. Uh, we did not see a pickup in networking year over year. So networking was down pretty big still, uh, for us. And then if I look at net sales, just overall generically, what we kind of saw was as we looked over the last couple of years, a few things for this quarter was a big gross to net that affected our net sales. We had a tough compare, no excuses. We were up 12% last year, so that was another. And we had a few customers that are digesting some of the supply chain, specifically in the networking space. We think they'll start to come back into play in the coming quarters. So overall, data center cloud, security, nice pickup. Networking still needs to improve.

Greg Burns | Analyst, Sedodian Company:

Okay. And then when you look at the AI opportunity, Most of the investment's been going into like the hyperscaler data center environment. Where does like enterprise AI adoption, enterprise investment stand? And do you think that, I guess maybe in your guidance for next year, does that contemplate any kind of acceleration and maybe AI demand?

Mark Marin | CEO and President:

Yeah, not, not yet, Greg, maybe towards the end of the year, beginning of next year. So you're right. Most of the spend with Nvidia and the bigger players is going towards the hyperscalers. What we're saying is customers are taking advantage of some of our, uh, workshops envisioning sessions. Uh, we've got a hosted, uh, proof of concept, basically a private, uh, gen AI chat bot, uh, that we, that gives customers the ability to kind of test and play around with your data to come up with use cases. So we think a lot of that'll be on the services side that'll drive for us, which is a good thing. It's our most profitable business. And then we think the infrastructure stuff will start to pick up. We've made investments with the training of our sales teams. We also just got the NVIDIA SuperPod specialization, which is their high-end computing. So over time, we think that infrastructure spend will pick up, but it'll take a little bit of time.

Greg Burns | Analyst, Sedodian Company:

Okay, thank you.

Mark Marin | CEO and President:

No problem. See you soon.

Operator | Conference Call Operator:

And there are no further questions, so I will now turn the conference back over to Mr. Mark Maron for closing remarks.

Mark Marin | CEO and President:

Okay. Thanks, Abby. Thank you, everyone, for attending our Q4 and full-year earnings call. I hope everybody gets to enjoy the long Memorial Day holiday, and we look forward to speaking with you again on our next earnings call. Take care and be safe.

Operator | Conference Call Operator:

And ladies and gentlemen, this concludes today's call and we thank you for your participation. You may now disconnect.