NASDAQ:PLUS Q1 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Today, ladies and gentlemen, welcome to the E-Plus First Quarter 2026 Earnings Result 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. On the call is 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 of the Securities and Exchange Commission including our most recent annual report on Form 10-K, quarterly reports on Form 10-Q, and in other documents we may file with the FCC. 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 measurements during the call. We have included a GAAP financial reconciliation and 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 Marin.

Mark Marin | CEO and President:

Mark? Thank you, Clay. Good afternoon, everyone, and thank you for joining our first quarter fiscal 2026 earning goal. Our results for the first quarter highlight the strength of the business we have built, even in an uncertain economic environment. We believe this is a testament to the need for our solutions and services, and our diverse customer industry segments. In addition to our strong results, we advanced on some major strategic initiatives during the first quarter. So before discussing our financial and operating results, I want to start with four key messages. First, the first quarter results reflect the importance of our strategic initiatives over the past few years and the momentum across our business. Second, with the sale of our domestic finance business, we are now a pure play technology services provider, and we believe we are better positioned for long-term growth. Third, our strategy remains centered around delivering integrated, service-rich solutions with an emphasis on AI, security, data center, cloud, and networking. This approach, coupled with our agile operating model, allows us to rapidly respond to market needs and continue gaining market share while supporting our customers with the products and services they need. And then fourth, our healthy balance sheet with the largest cash position in our history. It provides flexibility to support our growth initiatives as well as return capital to shareholders. To that end, we were initiating our first quarterly dividend and announcing a new stock buyback program. Now let's discuss the highlights of our financial results. The results I'm about to discuss include our continuing operations and exclude the domestic financing business, which we divested on June 30th and is accounted for as discontinued operations in the quarter and retrospectively in prior periods. Elaine will discuss this in more detail in her presentation. We are pleased with the strong start to the year with a solid first quarter performance across key financial metrics. We delivered double digit increases in net sales, gross profit, adjusted EBITDA, driven by our core solutions in data center, cloud, and security, the resumption of purchasing by some large enterprise customers we achieved our

highest ever quarterly results in gross billings and net sales underscoring the strength and resilience of our strategy execution and business model looking at some highlights for the quarter product sales rose nearly 14 fueled by continued demand across ai security data center and cloud We continue to see a sustained industry-wide shift towards ratable and subscription-based models, as you heard me discuss on previous calls. Gross billings of security products and services remain to stand out with an increase of 24.4% year-over-year. Security now represents 22.8% of our gross billings on a trailing 12-month basis. Networking showed sequential improvement, and we expected to benefit from the broader demand environment driven by AI adoption. Our 2023 acquisition of SBG expanded our high-end networking capabilities to better serve customers investing in AI infrastructure. Service sales were up 49% as our investments in high-growth recurring offerings continued to gain traction as well as the acquisition of Bailiwick. Bailiwick is a great example of our acquisition strategy to broaden our solution set from core to edge, expand our customer base, and add enterprise level service capabilities. Let me spend some time now discussing AI. AI continues to be a transformative force and demand driver, particularly for our core products of compute, cloud, security, networking, and our consultative services. Across industries, customers are using AI to enhance decision-making, automate tasks, and drive both growth and efficiency. We have and will continue to invest in AI resources, solutions, and services, including providing bespoke workshops and labs to help our customers find the right AI-driven business outcomes. Through our AI consultative engagements, we are helping our customers define the possible. We believe we are well positioned to provide the infrastructure, hardware, software, and services our customers need to power AI use cases, similar to what we did for our customers around converged infrastructure years ago. The sale of our domestic finance business was a major milestone. It simplifies our business model, reduces earnings volatility from that business, and solidifies our position as a pure play technology product and services company while providing the flexibility to enhance our solutions and services. We are still able to provide financing and related offerings through a relationship with the buyer, so the sale effectively simplifies our overall pure play technology business while allowing us to grow our offerings in a more capital efficient manner. Moving next to capital allocation, where we also made progress on our strategic initiatives. Our balance sheet remains strong, closing the quarter with $480 million in cash and cash equivalents, a record level for us. This financial stability, combined with the consistent free cash flow generation, enables us to invest in the business while also opportunistically returning capital to shareholders. We will focus our resources on markets and segments where we have the greatest advantage and will continue evaluating strategic acquisitions that align with our growth areas. We are looking to capitalize on the fast-growing segments of AI, data center, cloud, security, networking, and related services. With our strong cash position, we remain committed to driving shareholder value. To that end, we initiated our first-ever quarterly dividend of 25 cents per common share. The board also approved a new share repurchase authorization of up to 1.5 million shares. We will continue to review our capital allocation strategy on a periodic basis with an eye towards organic and inorganic growth and enhancing shareholder returns with dividends and share repurchases, which we have opportunistically conducted for more than 20 years. 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 am pleased to review our performance in the first quarter of fiscal 2026. We had a strong start to fiscal 2026 with double-digit growth in net sales, gross profit, adjusted EBITDA, and diluted earnings per share in a fluid macroeconomic environment. We also achieved gross billings of 953 million, a high for E+, underscoring our ability to drive growth both organically and through strategic acquisitions. On June 30, 2025, we completed the sale of our domestic financing business for cash proceeds of $180.1 million and recognized a post-closing receivable of $7.8 million and a contingent consideration asset of $13.5 million. Consequently, alongside the results of our continuing operations, We are retrospectively presenting the results of our domestic financing business as discontinued operations for the current period and all prior periods. First quarter consolidated net sales increased 19% to $637.3 million, led by strong performance in both our product and services segments, with broad-based growth across all customer sizes. Product sales grew 13.9% to 521 million, driven by continued demand for

our data center, cloud, and security offerings. Revenue also benefited from large purchases by certain enterprise customers that were project specific, as well as favorable product mix. This dynamic benefited net sales while lowering gross margin. As Mark mentioned, Security remains a key growth driver for ePLUS, now representing approximately 22.8% of gross billings on a trailing 12-month basis, up from 20.4% in the prior year's comparable period. Our service segments continue to be standout performers, with revenue up nearly 50% year-over-year. Growth in the professional services segment was led by the acquisition of Bailiwick, which occurred on August 19, 2024, while continued demand for enhanced maintenance services and cloud offerings drove managed services growth. Moving on to our customer verticals, telecom, media, and entertainment and SLED are our two largest end markets representing 25% and 16% of net sales respectively on a trailing 12-month basis. Healthcare, technology, and financial services accounted for 14, 13, and 8% respectively, with the remaining 24% divided among other verticals. Consolidated gross profit was 148.2 million, up 16.8% from the prior year quarter, as higher product and services net sales were partially offset by lower margins. Gross margin was 23.3%, down 40 basis points from the first quarter of fiscal 2025 primarily driven by lower product margins of 20.4% compared to 21.6% a year ago. As I mentioned before, this reflects the outsized proportion of sales to certain enterprise customers at lower margins, as well as a lower proportion of sales of third-party maintenance and subscriptions, which are recognized on a net basis. These factors resulted in a gross-to-net adjustment of 33.8% of gross billings compared to 34.6%, in the prior year quarter. Gross margin in our professional services segment was 39.2% compared to 41.5% a year ago due to the acquisition of Bailiwick, which generally provides services with a lower gross margin than core professional services offerings. Managed services gross margin was 30.4% compared to 31.4% in the first quarter of fiscal 2025. Consolidated operating expenses increased 17.4% to 112 million, primarily reflecting acquisition-related amortization and increased headcount from the bailiwick acquisition. Headcount increased by 275 employees from the first quarter of fiscal 2025, which includes the addition of 377 employees from bailiwick at June 30th with some offset. On July 1st, 2025, 45 employees moved with the sale of the financing business. Operating income was $36.2 million and earnings before taxes were $36.8 million from continuing operations representing increases of 15.1% and 11% respectively compared to the prior year period. Other income was $600,000, which includes $2.1 million in interest income. partially offset by $1.5 million of foreign currency translation losses. Our effective tax rate was 26.3%, below the 27.1%, as recast for continuing operations for the last year's period. Net earnings from continuing operations amounted to $27.1 million, or $1.03 per diluted share, above the $24.2 million, or $0.90 per diluted share, in the year-ago quarter, which was recast for discontinued operations. Non-GAAP EPS from continuing operations was $1.26 versus $1.01 in the prior year, and weighted average diluted shares outstanding decreased slightly to 26.4 million. Discontinued operations earnings before tax was 14.6 million, up from 4.4 million in last year's quarter, and comprised of earnings before tax of 10.2 million, and a gain on the sale of the financing business before tax of $4.4 million. Diluted EPS from discontinued operations was $0.40 compared with $0.12 last year. Moving on to our balance sheet, cash and cash equivalents were $480.2 million at the end of the quarter, up sequentially from $389.4 million driven by cash proceeds from the sale of the financing business offset by changes in working capital. Inventory was 101.1 million, down from 120.4 million at the end of fiscal 2025, while inventory days outstanding of 14 remain stable. Our cash conversion was 26 days, down from 29 days in the prior sequential period and 37 days a year ago. Our capital allocation strategy is centered on four pillars. First, we continue to evaluate strategic acquisitions that expand our geographic footprint and complement our core offerings. Second, we continue to invest in organic growth opportunities across the business. We are focused on improving shareholder returns. As such, our third priority is to return capital via quarterly dividends, while our fourth is to return capital via a share repurchase program. Ultimately, our balanced approach allows us to continue investing for growth while simultaneously allocating capital to other initiatives like acquisitions, dividends, and share repurchases. To that end, we are pleased to announce the first quarterly dividend in ePLUS's history of $0.25 per common share payable on September 17, 2025 to shareholders of record on August 26, 2025. reflecting our commitment to delivering consistent long-term value to shareholders. In addition, our board has authorized a new 12-month share repurchase program of up to 1.5 million shares beginning August 11, 2025, underscoring our confidence in our long-term prospects. With that, I will turn the call back over to Mark. Mark?

Mark Marin | CEO and President:

Thank you, Elaine. Eplus currently has the strongest financial foundation in our history. The first quarter saw significant transformational advancement in our strategic initiatives with the sale of our domestic financing business and the initiation of a quarterly dividend. Coupled with our strong organic performance, we are adjusting our fiscal 2026 guidance. Additionally, we continue to believe that the breadth and scale of our customer base provides a solid foundation for continued growth. For fiscal 2026, we are increasing our net sales, gross profit, and adjusted EBITDA forecast. We now expect net sales growth in the upper single-digit range above fiscal year 2025's $2.01 billion from continuing operations and gross profit growth in the upper single-digit range from fiscal year 2025's $515.5 billion from continuing operations. For adjusted EBITDA, we now forecast growth in the mid-teens over fiscal year 2025's $141 million from continuing operations. Our previous guidance was for low single-digit net sales growth accompanied by mid-single-digit gross profit and adjusted EBITDA growth. The strong increase reflects our first quarter outperformance as well as our strong pipeline and outlook. We remain committed to drive an expansion in complementary product categories and executing our discipline approach on M&A to drive additional scale in our business, grow our addressable market, and stay focused on the areas that add value in the long term. In conclusion, we have reached an important inflection point in our business, as evidenced by the progress and strategies discussed today. We have built a solid foundation for future expansion, and we remain confident in our ability to build on our strength while capitalizing on meaningful growth opportunities ahead. Thank you for joining us today. We will now open for questions.

Operator | Conference Call Operator:

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 Maggie Nolan from William Blair. Please go ahead.

Maggie Nolan | Analyst, William Blair:

Thanks so much, Mark and Elaine. Busy quarter. I'm wondering if you can be a bit more granular on the drivers behind the increase in your adjusted EBITDA growth guidance in particular.

Mark Marin | CEO and President:

In the adjusted EBITDA? So a couple different things, Maggie. One, good hearing from you. I'm glad you're on the call. A few things. Let me touch on the quarter, and then I'll touch on the adjusted EBITDA. First, if you looked at our quarter, it was a really solid quarter across a lot of different metrics. Everything was up double digit across the board from net sales, GP, adjusted EBITDA, and so forth. What we're seeing is an uptick. We saw an uptick in both product and services across all customer size segments. We started to see a more uptick in data center cloud. In the security business, we also saw some sequential growth in our networking business, which gives us, you know, keeps us positive of that starting to grow after being down year over year with the supply chain. As it relates to adjusted EBITDA, the other quick things, sorry, just real quick, in terms of we saw some really nice growth in our services business that we think can continue, right? And security continues to be a top performer, being up 24.4%. We're also seeing the early innings of some AI traction. So we feel we're pretty well positioned in that space based on what we've done traditionally with infrastructure across compute and storage and networking and all the security and services related. Even though it's early innings, we are starting to see some wins in what we call the plumbing, both the service opportunities as well as storage and networking that's starting to come out of that. With it said, related to the adjusted EBITDA, there's some moves that we've made across OPEX and some other things over the past few quarters that will lead to the adjusted EBITDA being up a little bit more than the top line sales and gross profit. That was long-winded, Maggie. Hopefully that answered it.

Maggie Nolan | Analyst, William Blair:

That did. Thank you. And then for my next question, the resumption of purchasing by some large enterprise customers, Are they back to normal spending levels, or from a modeling perspective, should we consider this to be project-based revenue that wouldn't necessarily repeat in subsequent quarters? Just can you elaborate a little bit on what this means from a growth perspective going forward?

Mark Marin | CEO and President:

Yeah, thanks, Maggie. Yeah, we had a nice quarter with our enterprise customers, and I think that is the resumption with a couple of large customers that have slowed down in terms of implementing some of the technology that they had bought in prior quarters. I still think it's project-based, so I'm not so sure yet that it's a trend that will continue throughout the year. But we had some real nice enterprise wins across the board overall. And then the other thing that comes into play for us as it relates is you had some seasonality with Cisco and Palo, two of our bigger vendors, that kind of affect the quarter at some point.

Maggie Nolan | Analyst, William Blair:

Got it. Helpful context. Thanks for your time.

Mark Marin | CEO and President:

All right, Maggie. Take care.

Operator | Conference Call Operator:

Our last question comes from the line of Greg Burns from CWD. Please go ahead.

Greg Burns | Analyst, CWD:

Good afternoon. Congrats on the solid quarter. I just want to maybe get your view on why was now the right time to divest the financing business as opposed to maybe some time in the past?

Mark Marin | CEO and President:

yeah hey greg how are you so first off it's been on our radar for a while we've explored it as a management team for years uh i think really what it came down to is we started seeing with what's happening in the market around ai and cyber and all the things that services that are needed and we thought it was the right time so we went through a full process with the third party what we think it does it really it kind of really helps us become a pure technology play so it simplifies our business model, if you think about it, right? It frees up significant cash, right? So that gives us the flexibility we need to make moves to expand our footprint and customer base as AI and other things start to take off. The other thing it did, if you think about it, it also gives us the ability to provide a dividend to our shareholders with some of the cash that we had tied up. So I don't know if I'd call it a timing thing. It's something that's been in play or on our radar for a while. we've always thought about it. And as we see the market really moving towards AI and some other things, we thought this was the right time to take advantage of it.

Greg Burns | Analyst, CWD:

Thanks for that. And then just lastly, in terms of your readiness to capitalize on AI, are there any areas of organic investment or maybe inorganic acquisitions that you might need to do to kind of bolster your AI service offering?

Mark Marin | CEO and President:

Yeah, very much so. I think in the consultative services side would be the first one. We've made a lot of investments in terms of training our sales and service teams. We've built up our labs and AI briefing centers and things along those lines, but I do think we'd probably have to build up our AI consultative service capabilities. All the stuff underneath that, Greg, all of what we call the plumbing, you know, the high performance computing, the storage, the networking, the security. We pretty much have done that for years, so we feel we're pretty well positioned, but it's more that front end, get in front of a customer, help them work through what they wanna do with AI and help them build their use cases and then provide the infrastructure to manage those workloads and things along those lines. Here's what we're excited about. It gives us the ability to really take some hard looks at some things that we may have passed passed in the past, we would have passed on. But now we have the ability to take a harder look at it. We're not going to just spend to spend, though, so it's going to have to be the right opportunity. But we feel pretty good about how it's positioned us for going forward.

Greg Burns | Analyst, CWD:

All right, great. Thank you.

Mark Marin | CEO and President:

All right. Thanks, Greg.

Operator | Conference Call Operator:

I would now like to turn the call back over to Mark Myron, President, CEO for Closing Remarks.

Mark Marin | CEO and President:

Thanks, man. Hey, so if I could, I think it was a really solid quarter and start to the fiscal year for E-plus with double digit growth across all the key metrics. You know, strategically, we sold finance and instituted a quarterly dividend that when you think about it, increased our flexibility with our capital allocation plans. And I believe positions us really well for growth in the future. So with that, I want to thank you for joining us today and have a great day. Take care.

Operator | Conference Call Operator:

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