NASDAQ:PLUS Q2 2026 Earnings Call Transcript

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Amanda | Investor Relations:

Thank you for joining us today. On the call is Mark Marant, CEO and President, Darren Raguel, COO and President of Eplus Technology, and Elaine Marion, CFO. 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 in other documents that we 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 use certain non-GAAP measures during the call. We have included a GAAP financial reconciliation in our earnings release which is posted on the investor information section of our website at www.eplus.com. I'd now like to turn the call over to Mark Marin. Mark?

Mark Marant | CEO and President:

Thank you, Amanda. Good afternoon, everyone, and thank you for joining us today for our second quarter fiscal 2026 earnings call. This quarter represents a significant milestone for Eplus. as we delivered the first quarter in our history with over $1 billion of gross billings, underscoring the momentum across our business and the strength of our diversified model. Our performance this quarter again reflects our unrelenting focus on delivering the products and services our customers require in today's market. We are seeing this growth not only in the quarter, but in our year-to-date results as well, with revenue up over 20% and total gross billings of almost $2 billion in the six-month period. I want to highlight four key messages. First, as I mentioned, our record $1 billion in gross billings in the quarter underscores strong and broad-based demand across our portfolio, customer segments, and verticals. Notably, most of the growth was organic, with acquisitions accounting for only 10%. Second, our consolidated net sales for the quarter grew 23.4%, but adjusted EBITDA grew at a rate that is more than twice that of net sales. as operating leverage continues to shine through. This was supported by increased demand for our products and services, underscoring the resilience in our strategy and internal automation initiatives. Third, we continue to invest and align our resources in higher growth areas of AI, security, and cloud to deliver value-added products and solutions, enabling us to both grow our customer base and increase sales to existing customers. And fourth, our balance sheet remains strong, closing the quarter with over $400 million in cash, giving us flexibility to continue investing organically and inorganically while returning capital to shareholders. Let me start with a brief overview of the quarter's financials results. As a reminder, we completed the sale of our domestic financing business on June 30, 2025, which is now accounted for as a discontinued operations. During the quarter, we had solid execution across the board delivering strong financial results with most of the growth organic. Net sales increased 23.4% year-over-year with broad-based growth across products, professional services, and managed services. Additionally, growth was across all customer sizes and industries with notable performance in the mid-market and enterprise segments. Lastly, we saw especially strong performance across almost every vertical, except state and local government, where budget constraints persisted. Let me talk about some additional drivers of this robust performance as it relates to fast-growing areas. Security continues to be a standout performer, with gross billings of security products and services up 52% year-over-year, now representing 24% of trailing 12-month gross billings up from 21% last year. Networking posted its second consecutive quarter of sequential growth, which we believe is being fueled by AI-driven infrastructure investments. And in data center and cloud, net sales grew nearly 30% year-to-date, reflecting

customer modernization initiatives tied to AI deployments. Shifting to profitability, second quarter adjusted EBITDA increased 62%, And the six-month adjusted EBITDA was 40% higher than the same period of the prior year. The operating leverage reflects our strategic alignment of headcount towards high-growth focus areas of AI, data center and cloud, security, and networking. We have also leveraged AI internally to provide faster incident resolution and closure, leading to a better customer experience. Although we have grown through automation, we have been able to maintain headcount in parts of our internal and external services teams over the last couple years. These actions provide a solid platform to build upon. Now let's turn next to AI, an area that continues to accelerate across our customer base and within Eplus itself. A recently released AI industry pulse poll revealed that nearly three-quarters of IT and business leaders now view AI primarily as a driver of revenue growth, surpassing cost savings and customer satisfaction. This marks a significant shift in how organizations approach AI from efficiency to expansion. At the same time, the survey showed that 81% of leaders are concerned about whether their infrastructure can support advanced AI applications, underscoring the opportunity for Eplus to help customers scale securely and effectively. During the quarter, we acquired RealWave, a cloud-based AI-powered software that integrates video, Internet of Things, and sensor data to detect events, make decisions, and trigger automated actions, expanding our ability to deliver real-time AI-driven insights to customers. Shifting to our balance sheet and capital allocation, we have a healthy balance sheet with over $400 billion in cash, enabling disciplined capital allocation, both organically and through M&A that can fuel long-term growth. In summary, our second quarter results reflect continued progress across our segments. We remain focused on driving growth, optimizing margins, and deploying capital to maximize shareholder value over time. I want to close by thanking all of our Eplus teammates for their efforts in delivering a strong quarter and first half for Eplus and our shareholders. I will now turn the call over to Elaine. Elaine?

Elaine Marion | CFO:

Thank you, Mark, and thank you, everyone, for joining us. I will review our financial performance in the second quarter of fiscal 2026. Continued momentum across our business led to another quarter of double-digit increases in our key financial metrics. Consolidated net sales totaled $608.8 million, up 23.4% year-over-year, driven by sustained demand across our focus areas of security, networking, and cloud. As Mark mentioned, we continue to see demand across all customer sizes with particular strength in the mid-market and enterprise segments. As you may recall from our last earnings call, enterprise customers resumed purchasing in the first quarter following a period of product digestion, and we saw a continuation of this trend in the second quarter. Growth billings of $1.02 billion in the quarter represented a 26.5% increase in year-over-year, with the majority of this growth being organic. This milestone underscores the strength of our diversified business model and our strategic focus on high-growth areas, including offerings that enable AI consumption. Product sales in the quarter totaled $485.1 million, up 24.5% from the prior year, led by robust demand in networking and security solutions, aided by increased AI adoption, as well as growth in data center and cloud. Service revenue reached $123.8 million in the quarter, representing growth of 19.4% year over year. Professional services grew 23.3%, led by the addition of Bailiwick in August of 2024, while managed services increased 13.5%, led by the strength in enhanced maintenance support and cloud offerings. Services remain a strategic focal point for E-Plus, and we remain committed to add to our capabilities in this segment to build out our strong recurring revenue base over the long term. Taking a look at our customer verticals, sales remain broad-based. Telecom, media, and entertainment and SLED, our two largest verticals, accounted for 27% and 14%, respectively, of net sales on a trailing 12-month basis. Healthcare, technology, and financial services represented 13%, 13%, and 9%, respectively, with the remaining 24% divided among other end markets. Second quarter growth profit totaled $162.1 million, up 27.4% from the prior year quarter. This represents a consolidated gross margin of 26.6%, up 80 basis points from 25.8% last year, driven by increased product margins. Product growth margin expanded 160 basis points to 24.5%, reflecting a favorable mix as we sold a higher proportion of third-party maintenance and services in the quarter, which are recorded on a net basis. Professional services growth margin was 38.2% compared to 41.3% a year ago. This change was due to the acquisition of Bailiwick, which had lower growth

margin than our legacy professional services. Managed services gross margin was $29.5 in line with the prior year quarter. Consolidated operating expenses increased 12.9% to $113.3 million, reflecting higher salaries and benefits primarily from a full quarter of bailiwick and additional variable compensation due to the increased gross profit generated in the quarter. Headcount from continuing operations at quarter end was 2,138, down 6% from the prior year quarter, as we focus on roles in high growth areas, including AI, cloud, security, and networking. Operating income rose 80.9% to $48.8 million, significantly outpacing the increase in operating expenses, demonstrating meaningful operating leverage. Earnings before taxes increased to $54 million from $27.3 million in the prior year quarter. Other income was $5.2 million, which includes $4.5 million in interest income and foreign exchange gains of $700,000. Our effective tax rate for the quarter was 29.3% versus 27.5% in the second quarter of fiscal 2025. Consolidated net earnings from continuing operations were $38.2 million above net earnings of $19.8 million in the prior year quarter, and net earnings from continuing operations per diluted share was $1.45 compared to $0.74 in the prior year quarter. Discontinued operations net loss was $3.3 million compared to net earnings of $11.5 million in last year's quarter. Diluted loss per share from discontinued operations was 13 cents compared with earnings per share of 43 cents last year. Non-GAAP diluted earnings per share for continuing operations was $1.53, up from 94 cents in the prior year. Our weighted average diluted share count was 26.4 million compared to 26.7 million in the second quarter of fiscal 2025. Adjusted EBITDA totaled $58.7 million, up 61.6% from $36.3 million a year ago. Adjusted EBITDA grew more than twice as fast as net sales, underscoring the operating leverage inherent in our business model. Moving to our results for the six months ended September 30, 2025, consolidated net sales totaled $1.25 billion, up 21.1%. from 1.03 billion in the first half of fiscal 2025, driven by an 18.8% increase in product sales and a 32% increase in services revenue. Year-to-date gross billings totaled 1.98 billion, an increase of 20.3% year-over-year. Consolidated gross profit for the first six months was 310.3 million, 22.1% above the 254.2 million in the first half of fiscal 2025. Road's margin expanded 20 basis points to 24.9%, led by an increase in product margins. Year-to-date consolidated net earnings from continuing operations were 65.3 million, or $2.47 per diluted share, compared to 44 million or $1.64 per diluted share in the first half of fiscal 2025. Discontinued operations net earnings for the first six months was 7.3 million versus 14.7 million in the first six months of fiscal 2025. Diluted EPS from discontinued operations was 28 cents compared to 55 cents in the comparable period last year. Non-GAAP earnings per share from continuing operations for $2.79, up 42.3% versus $1.96 in the prior year period. Turning to our balance sheet, cash and cash equivalents at quarter end totaled $402.2 million, up from $389.4 million at the end of the last fiscal year. Our cash position remains robust, providing us with significant flexibility to continue investing in both organic and inorganic growth initiatives as we support our capital allocation strategy. Inventory at quarter end was $154.1 million, up from $120 million at the end of fiscal 2025. Inventory days outstanding were 15 days, slightly above 14 days in the prior sequential quarter, and 12 days in the prior year. Despite the slight uptick of inventory days outstanding, our cash conversion improved to 30 days from 32 days in the prior year period. Our capital allocation strategy remains focused on four priorities, strategic acquisitions that complement our capabilities, organic investments in high growth areas, quarterly dividends, and opportunistic share repurchases. Consistent with these priorities, we repurchased 60,000 shares during the quarter after our stock repurchase plan authorization began on August 11th In addition, we are continuing to deliver shareholder value with the announcement of our second quarterly dividend of $0.25 per common share payable on December 17, 2025 to shareholders of record on November 25, 2025. In summary, we delivered strong second quarter and first half results, demonstrating superb execution by our employees, momentum in our business, and the success of our strategic initiatives. Now, I will turn the call back over to Mark. Mark?

Mark Marant | CEO and President:

Thank you, Elaine. The second quarter and year-to-date growth reflects momentum in the business, and it aligned with our focus on high growth areas. Underlying end market demand is healthy across much of the portfolio, and we continue to be pleased with our current positioning. Reflecting the strong financial performance to date and momentum we expect to continue, We are increasing our fiscal year 2026 net sales, gross profit, and adjusted EBITDA guidance. Net sales growth over the prior fiscal year is now expected to

grow at a rate in the mid-teens from fiscal year 2025's $2.01 billion from continuing operations. Gross profit is also expected to grow at a rate in the mid-teens from fiscal year 2025's $515.5 million from continuing operations. Adjusted EBITDA is expected to increase from fiscal year 2025's $140 million at approximately twice the rate of net sales growth for fiscal year 2026, as continuing operation results are expected to benefit from operating leverage. We also announced today our quarterly dividend of 25 cents per common share, which will be paid on December 17th, 2025 to shareholders of record on November 25th, 2025. Our solid cash balance positions us well to allocate capital to growth while returning capital to our shareholders. It was a significant quarter and first half for Eplus with double digit growth across all key metrics. The sale of our domestic financing business has simplified our business model and allowed us to focus on being a pure technology player. It also gives us the financial flexibility to expand our footprint and customer base, both organically and through acquisitions, while continuing to expand and enhance our solutions and service offerings. We are well positioned to build on our momentum, capitalize on new opportunities, and deliver value to stakeholders over the long term. Thank you for joining us today. We will now open it up for questions.

Operator | Conference Operator:

At this time, if you would like to ask a question, please press star followed by 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 with William Player. Please go ahead.

Maggie Nolan | Analyst, William Player:

Thank you and congratulations on the results. I'm hoping that you can double click for me on the strength and security. That was a pretty impressive numbers that you shared there. So what is driving the strength in that offering?

Mark Marant | CEO and President:

Well, a couple of different things, Maggie. So security was up 56% in terms of gross billings. Overall trailing 12 months, it's up nicely as well. What we're starting to see is a lot of the AI initiatives with customers, making investments, looking at data classification, data cleanliness, and projects along those lines, and then just the normal network security and all the other things that we've done over time. We are starting to see an uptick in, I'll say, AI-related deals across compute, storage, and security. And that's part of the reason that we had a nice quarter in those areas. Networking, by the way, I know you didn't ask for it, but networking was up nicely. So that also contributed nicely to the quarter. And if you remember a few quarters back, it was actually down due to the supply chain issue with the digesting of product that Elaine talked about. That's actually starting to pick up as customers look to modernize their networks to be ready for AI.

Maggie Nolan | Analyst, William Player:

Okay, great. Thanks for that context, Mark. And maybe to round it out, can you talk a little bit about what you're seeing by customer end market as well? There seem to be some variability in strength and weakness across your different end markets. Thanks.

Mark Marant | CEO and President:

Yeah, in terms of, well, let me touch on two things, make sure. As it relates to the verticals, we had a strong quarter across almost every vertical. The only thing that was down was our state and local, which I think had to do with a lot of what's going on in the government and funding and things along those lines. Otherwise, all

the verticals were up. And as it relates to our customer size segments, Maggie, the mid, the 500 to 10,000, and the 10,000 above, which we consider to be enterprise, was up real nice. So across, I'd say, all three of our segments, product, professional services, managed services, across all the verticals, except for the state and local in this lead space, And then across all the different product areas, we were up significantly except for collaboration, I should say.

Maggie Nolan | Analyst, William Player:

Got it. Thank you.

Mark Marant | CEO and President:

No problem. We'll talk to you soon, Maggie. Hope all's well.

Operator | Conference Operator:

Your next question comes from the line of Gregory Burns with Sidoti & Company. Please go ahead.

Gregory Burns | Analyst, Sidoti & Company:

Good afternoon. It's... Good to see the AI starting to now translate into some order flow for you. Could you just talk about maybe how the pipeline looks? What gives you confidence in the raised outlook for the year? Any kind of color you can give on pre-order or demand activity and how the pipeline is shaping up?

Mark Marant | CEO and President:

Yeah, Greg, so a couple different things. So as it relates first to the quarter, really proud of the team in terms of the execution, especially in a kind of an uncertain economic market with what's going on with the government shutdown tariffs and, you know, inflation up or down, right? So team really did a nice job in the first half. We also, you know, as we talked about on previous calls, We do a nice job of tracking the pipeline and opportunities that are in there. We did have a couple of nice large deals that fell in Q2. But as you can see, based on our guidance, we're still very optimistic about the rest of this year. And I think that kind of shows in our guidance.

Gregory Burns | Analyst, Sidoti & Company:

Okay. And the leverage, obviously, coming through really nicely now. How should we think about... leverage versus need to invest. You know, obviously there's a lot of growth opportunities out there for you, particularly maybe now with AI becoming more of a meaningful driver. So how should we think about leverage and how much the margins could expand from, I guess, where you're guiding to for this year?

Mark Marant | CEO and President:

Yeah, so two things there, Greg. One, I think you can expect operating leverage for a little period of time here. But as we've talked about on previous calls, we're a growth company. After selling a finance, we're in a pretty strong, I'll say, cash position that we have a lot of flexibility in terms of how we can go grab market share, expand our footprint, our customer base. And that could be through organic hires, which we will be making to kind of build out our services and AI capabilities. and also through acquisition. So short-term, I think you

continue to see some operating leverage, but we're still going to be active in looking at where we can build out our footprint and customer base, both organically and inorganically.

Gregory Burns | Analyst, Sidoti & Company:

Okay, great. All right, thank you.

Mark Marant | CEO and President:

No problem, Greg. Thanks for your time.

Operator | Conference Operator:

That is all the questions that we have. I would like to turn it back over to Martin Marin for closing remarks.

Mark Marant | CEO and President:

okay thank you uh operating everybody thank you for joining us on the call today uh once again we feel good about what uh the team put up this quarter and for the first half and want to thank you for joining us on this call take care and uh have a great uh holiday season if uh if you can take care this concludes today's conference you may disconnect