NASDAQ:PLUS Q3 2026 Earnings Call Transcript

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Operator | Conference Operator:

I would now 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 Maron, CEO and President, Darren Raguel, COO and President of E-Plus Technology, Elaine Marion, CFO, and Erica Stoker, General Counsel. I wanted to take a moment to remind you that the statements we'll 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 press release we issued this afternoon and our periodic filings with the Securities Exchange Commission, including our most recent annual report on Form 10-K, quarterly reports on Form 10-Q, and 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've 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 Maron. Mark?

Mark Maron | Chief Executive Officer and President:

Thank you, Clay. Good afternoon, everyone, and thank you for joining us today for our third quarter fiscal 2026 earnings call. The momentum we are seeing across the business continues to affirm our strategy and our focus on efficient operations, which is driving strong bottom line results. A few key things to note. We are seeing the most strength across our key focus areas of AI, cloud, networking, and security. We believe our ability to bring these capabilities together through integrated solutions is resonating in the market and helping us gain market share. We saw growth across all customer size segments with a particularly strong performance in the mid-market and enterprise space. Throughout the year, we have consistently delivered strong broad-based growth and continue to achieve operating leverage with the strategic alignment of our workforce towards higher growth areas and disciplined expense management, all while continuing to invest in the areas most important to our customers. And our strong balance sheet gives us the flexibility to invest organically, pursue strategic acquisitions, and return capital to our shareholders. Today, our board of directors approved a quarterly dividend of 25 cents per common share, and during the quarter, the company repurchased over 200,000 shares. Turning now to a brief overview of the financial results of the quarter. Net sales grew 24.6% to $615 million. Our product sales increased 32.2% year over year, led by a strong performance in data center and cloud, networking, and security. Demand tied to AI initiatives continue to drive infrastructure modernization across customers of all sizes. Services were flat as strong managed services were offset by weaker professional services revenue. We saw an increase in storage and cloud services as the continued build out of data centers and underlying infrastructure suggests a long runway of opportunity across the ecosystem and Eplus is well positioned to benefit from this trend. Offsetting this was a decrease in project work due in large part to delays from customers in our retail sector. Our service offerings continue to play an increasingly important role as customers look for Eplus to help assess, design, deploy, and manage AI use cases. Security also continues to be an important business driver for us. Overall, security gross

billings for products and services grew 16.4% year over year and is up 27.6% for the trailing 12 months. Customers continue to prioritize cybersecurity investments as threat levels rise due to AI. Our expanding security capabilities are resonating with our customers, and we are well positioned to meet demand here too. This includes helping our customers around their governance and risk frameworks, as well as providing data governance advice to ensure the right classifications and permissions are in use to support AI consumption of data. while also providing guidance on the correct protection architectures to secure AI workloads, both in development and production. Moving on to profitability, net earnings from continuing operations increased 129.3% to 33.4 million from the 14.6 million in the prior year quarter. And adjusted EBITDA increased 97% to 53.4 million with a margin of 8.7%, 320 basis points higher than the same period of the prior year. Closing out the financial commentary, our fiscal year 26 operating performance has been particularly strong, with net sales up 22% and adjusted EBITDA up 55% year to date. This reflects healthy demand trends combined with disciplined operational execution. With respect to industry trends, AI continues to be a meaningful growth driver. For us, AI adoption continues to accelerate across our customer base and remains a powerful tailwind as we are seeing AI-driven investments drive demand across data centers, security, cloud, and networking. We continue to look for ways to enhance and expand our AI envisioning sessions and AI acceleration offerings to help customers identify use cases that would benefit their company, and provide cost effective solutions to help them get started. This includes working on AI specific solutions and services to address areas of need, address any financial constraints, and help supplement their current workforce. Overall, we remain focused on expanding our solutions portfolio, growing our professional and managed services capabilities, and extending our geographic reach. We continue to evaluate acquisitions and investments that enhance our position in higher growth areas, help us scale, provide access to new customers, markets, and capabilities, and support our long-term vision of delivering comprehensive workplace transformation solutions. In summary, our third quarter and nine-month year-to-date results reflect our diversified business model, emphasis on high growth areas, and our disciplined execution. We believe we are well positioned for continued growth, supported by industry demand trends, operating leverage, and financial flexibility. I'll now turn the call over to Elaine. Elaine?

Elaine Marion | Chief Financial Officer:

Thank you, Mark, and thank you, everyone, for joining us. Today, I will review our financial performance in the third quarter of fiscal 2026. Our third quarter results demonstrate the resilience and scalability of our business model as we delivered double-digit growth across all key metrics. Consolidated net sales increased 24.6% to $614.8 million as compared to the same three-month period in the prior year, led by continued broad-based growth across customer sizes and verticals, with notable strength from mid-market and enterprise customers with some outsized projects from enterprise customers. Importantly, we delivered this growth while operating expenses increased a more modest 6% underscoring operating leverage. Driven by our strategic focus areas of AI, cloud, security, and networking, we delivered 15.6% growth in quarterly growth billings to 982.1 million and 18.7% growth in year-to-date growth billings which approached nearly 3 billion. For the quarter, product revenue grew 32.2% year-over-year to 501.9 million, reflecting growth across all categories. And service revenue totaled 112.8 million, down slightly from 113.6 million in the prior year period. Managed services revenue grew 10.5%, led by continued demand for cloud and enhanced maintenance support offerings, while professional services revenue declined 7.8% due to project delays from customers in our retail sector. Services remain a strategic focal point for ePLUS as we continue to add capabilities in our managed services segment to build out our recurring revenue basis. Sales across our customer verticals remain broad-based with telecom, media, and entertainment accounting for 27% of net sales on a trailing 12-month basis. and technology, sled, and healthcare, each accounting for 13%, and financial services at 9%, with the remaining 25% divided among other end markets, which have been growing. Third quarter consolidated gross profit totaled $158.7 million, up 26.8% from $125.1 million in the prior year quarter, and consolidated gross margin came in at 25.8%, up 40 basis points, from 25.4% last year. Product segment gross margin expanded 170 basis points to 23.8%, benefiting from a higher gross margin on sales offset by a lower impact from the sales of products that are recorded on a net basis. Professional services gross margin was 39.2% down from

40.1% in the prior year due to the blending of services from our acquisition of Bailiwick while managed services margins decreased slightly to 29% from 29.8%. Operating expenses increased 6.1% to $115.2 million in the quarter, mainly due to increased variable compensation reflective of the increased gross profit. Continuing operations headcount declined 3.4% to 2,166 as we emphasize roles in our strategic high growth areas. Operating income totaled $43.5 million and earnings before taxes were $45.6 million compared to $16.5 million and $19.9 million respectively in the third quarter of fiscal 2025. Other income totaled $2.1 million compared to $3.4 million in the prior year. Our effective tax rate came in at 26.7%, essentially in line with 26.9% in the prior year. Net earnings from continuing operations were 33.4 million or $1.27 per diluted share, more than double the 14.6 million or 55 cents per diluted share reported in the year-ago period. Discontinued operations net income was 1.7 million due to the settlement of a legal matter compared to the 9.6 million reported in the third quarter of fiscal 2025. Net earnings from discontinued operations per diluted share were 6 cents compared to 36 cents in the prior year quarter. Non-GAAP diluted earnings per share from continuing operations more than doubled to $1.45 from 71 cents in the prior year. Adjusted EBITDA for the quarter totaled 53.4 million, nearly doubled to 27 million, we reported in the third quarter of fiscal 2025. Adjusted EBITDA growth significantly outpaced gross profit and net sales growth, demonstrating the meaningful operating leverage in our business model. Now I would like to review our results for the nine months ended December 31, 2025. Consolidated net sales increased 22.2% to $1.86 billion, up from $1.52 billion in the first nine months of fiscal 2025, driven by balanced growth across products and services. Year-to-date consolidated gross profit rose 23.7% to $469 million, and gross margin expanded 30 basis points to 25.2%, led by strong product margins. Year-to-date consolidated net earnings from continuing operations totaled 98.7 million, 68.5% above the 58.6 million reported in the first nine months of fiscal 2025. Diluted EPS from continuing operations increased to $3.74 from the $2.19 per diluted share reported in the prior year. Discontinued operations net earnings for the first nine months was $8.9 million or $0.34 per diluted share versus $24.2 million or $0.91 per diluted share in the first nine months of fiscal 2025. Non-GAAP earnings per share from continuing operations grew 59% to $4.23, up from $2.66 in the prior year period. Turning to our balance sheet, cash and cash equivalents at quarter end totaled $326.3 million, down from $389.4 million at the end of the last fiscal year, primarily due to working capital needs. Our strong cash position provides financial flexibility and enables us to pursue organic and inorganic investments while also allowing us to return capital to shareholders. Inventory at quarter end was $241 million up from $120.4 million at the end of fiscal 2025, primarily due to an increase in projects in process. Inventory days outstanding were 22 days above the 15 days reported in the prior sequential quarter and 13 days in the prior year. This contributed to an increase in our cash conversion cycle to 41 days from 32 days in the last year's fiscal third quarter. We continue to take a disciplined approach to capital allocation with a focus on organic and inorganic investments in our key strategic areas and returning capital to shareholders through dividends and share repurchases. In line with this framework, we repurchased over 200,000 shares during the quarter. We are also very pleased to announce a quarterly dividend of 25 cents per common share payable on March 18th, 2026 to shareholders of record on February 24th, 2026. Our third quarter demonstrates the resilience of our business model and continued execution on our strategic priorities. With that, I will turn the call back to Mark. Mark?

Mark Maron | Chief Executive Officer and President:

Thank you, Elaine. We reported a solid quarter and year-to-date performance with double-digit growth across all key metrics. Our third quarter and year-to-date results reinforce the strength of our strategy, the demand momentum across our portfolio, and the scalability of our operating model. Importantly, We see this momentum continuing. Accordingly, we're increasing our full-year guidance for net sales, gross profit, and adjusted EBITDA growth. We are raising our net sales guidance to 20 to 22% year-over-year growth, an increase from the prior guidance of mid-teens. This increase is against fiscal year 2025's $2.01 billion from continuing operations. Gross profit is now expected to grow at a rate of 19 to 21% as compared to the prior guidance of mid-teens from fiscal year 2025's $515.5 million from continuing operations. We now expect adjusted EBITDA to increase 41 to 43% over our fiscal year 2025 adjusted EBITDA of $141 million from continuing operations. This is an increase from our prior guidance that was twice the pace of net sales when

net sales was expected to be in the mid teens. As we look ahead, we're also mindful of potential near-term risks, including the industry-wide memory shortage. The global memory chip market is experiencing a notable supply squeeze and rapid unexpected price increases. Demand for advanced memory components, especially those used in large AI systems and data centers, is outpacing the industry's ability to produce them. While this dynamic could impact certain customer deployments or timing, we believe we are well positioned to manage through it given our diversified supplier relationships and close coordination with customers. Still, it is a development we must monitor closely. We are entering the last quarter of the year with strong momentum and balance sheet resources to continue investing while supporting our capital allocation priorities. Our focus remains on executing our long-term strategy, delivering consistent results, maintaining disciplined capital allocation, and supporting our customers as they invest and grow. The progress we have made year-to-date underscores the strength of our strategy and successful execution and positions us well for the future. We are excited about the opportunities ahead and remain focused on driving sustainable growth and long-term shareholder value. I want to close by thanking our Eplus team for their continued dedication and execution in delivering another strong quarter. Their efforts are critical to delivering value to our customers and our shareholders. Thank you for joining us today. We will now open the call for questions.

Operator | Conference Operator:

Thank you. We will now begin the question and answer session. Again, if you'd like to ask a question, please press star then the number one on your telephone keypad to raise your hand and enter the queue. If you'd like to withdraw your question at any time, you can simply press star one again. We'll pause just for a moment to compile the roster. Your first question comes from the line of Maggie Nolan with William Blair. Your line is open.

Maggie Nolan | Analyst, William Blair:

Hi, thank you. And congrats from me on the quarter and the guidance. I wanted to dig into the comment I One of you had made about outsized projects from enterprise customers. Can you fill us in a little bit on the nature of these, how big they are, the drivers of them, and then how many quarters of that outsized impact do you potentially expect until it reverts to normal or moderates?

Mark Maron | Chief Executive Officer and President:

First off, thanks, Maggie, for the quick appreciation of the quarter. So a couple different things happened in the quarter. I'll touch on a few of them and then address your enterprise piece. One, we saw growth across all product segments and customer size segments. What was really interesting, our mid-market customers had the biggest growth. So that's kind of our sweet spot. So some of the things we've talked about throughout the years about our strategy and where our focus is around AI, cloud, security, and networking is really taking hold. What we were trying to message, if you will, as it relates to the enterprise customers, we had a few of our large enterprise customers that had fairly large quarters in Q3. We don't think that'll be a major slowdown in Q4, but we don't think we'll be able to replicate that. And that kind of shows in our guidance that we gave for the year.

Maggie Nolan | Analyst, William Blair:

Okay, great. Thank you, Mark. And then on the professional services piece, you mentioned some project delays from retail customers. Are those more like push outs where you would expect maybe that revenue to materialize in March or fiscal 2027? And then any insight on what is the nature of these delays and whether that could be more widespread across your services business?

Mark Maron | Chief Executive Officer and President:

Yeah, I would expect, Maggie, more 27 in 2027, or I guess 2026, our fiscal 2027 is when you'd see it. So we don't expect it to be a long term. It was just a few customers that delayed projects specifically in the retail and consumer space that affected that. That's where our PS was down. You know, our staffing was down a little bit as well, but we're not as concerned on that. And then the other thing just to note, if you remember, last year our services were up significantly, over 50%. That was really due to the Bailiwick acquisition. So it was a combination of a tough compare, you know, a few customers that kind of slid off this quarter that will slide into next fiscal year, and then staffing being down. I will highlight as well our MS continues to grow, our managed services, sorry. So we feel like we're in a pretty good spot overall.

Maggie Nolan | Analyst, William Blair:

Okay. Thank you.

Mark Maron | Chief Executive Officer and President:

All right, thanks. Stay warm in Chicago, Maggie.

Operator | Conference Operator:

Again, if you'd like to ask a question, please press star, then the number one on your telephone keypad. Your next question comes from the line of Greg Burns with Sidoti & Company. The line is open.

Greg Burns | Analyst, Sidoti & Company:

Good afternoon. I just wanted to touch on the inventory build and the, I guess, the timing of those projects. When do you expect to be able to deliver against that inventory that you're carrying on your balance sheet?

Elaine Marion | Chief Financial Officer:

Yeah, Greg. So, sequentially, the inventory increased about $85 million, and that's really in concert with what we're seeing with the increase in just demand for the quarter as well. So, the projects are fluctuating in and out. There'll be a progression of lesser inventory over time, but we're also seeing new orders as well. I would expect the inventory level to be a little more inflated, you know, in the next several quarters.

Mark Maron | Chief Executive Officer and President:

And traditionally, Gregor, AI and inventory pick up at the end of the year a little bit as well.

Greg Burns | Analyst, Sidoti & Company:

Okay. Is there any way you could, I don't know, maybe we're not at the point yet, but to quantify the impact AI is having for you, maybe any kind of additional kind of color you could give us to maybe understand kind of the size of that business now versus maybe the growth rates?

Mark Maron | Chief Executive Officer and President:

Yeah. Hey, Greg, we've kind of talked about it. What was interesting this quarter versus some of the prior quarters? AI was somewhat of a headwind. We now see it as a tailwind, and we've talked about this in prior quarters. What's happening is now is everybody's starting to define their use cases and figure out how to take advantage of these AI capabilities. What we've always talked about is people have to modernize their legacy systems, and that's where we're seeing the growth. If you look at our data center cloud growth, if you look at our networking growth, which, by the way, networking we've talked about in previous quarters, it was kind of down a while back because the supply chain people had to digest it. Well, they're through that. They're now AI enabling their networking and refreshing stuff based on timing. So a lot of what you're seeing in the growth in our product areas is being driven by AI. Also from a security perspective, there's a lot going on with governance risk and compliance, data governance, and I'd call it even threat protection, like building the roadmaps for our customers as they try to take advantage of the AI capabilities. But it's been a very nice add for us over the last few quarters related to the different product areas.

Greg Burns | Analyst, Sidoti & Company:

All right. And then you had mentioned your ability to offer kind of integrated solutions across all the areas you mentioned, like AI cloud networking. How important is that becoming for you? I haven't heard you mention that in the past. So how important is that dynamic to your ability to continue to grow and gain market share?

Mark Maron | Chief Executive Officer and President:

Yeah, I think it's one of our differentiators, Greg. I think a lot of customers... are looking to just lock down a few key partners or strategic vendors to kind of deal with. I'd almost liken it to, if you remember back in the day with converged infrastructure, when that came out with compute and storage and virtualization, that's what kind of put us on the map in that space because we were able to bring all those vendors together in a tight solution while providing managed services around it.

Greg Burns | Analyst, Sidoti & Company:

Okay. All right. Great. Thank you.

Mark Maron | Chief Executive Officer and President:

No problem. Anything else?

Operator | Conference Operator:

Thank you. And with no further questions in queue, I'd like to turn the conference back over to Mark for any closing remarks.

Mark Maron | Chief Executive Officer and President:

All right. Thank you, everyone, for joining us today for Earnings Call. We look forward to updating you on our Q4 and fiscal earnings call in May. Thanks for taking the time today. Take care.

Operator | Conference Operator:

This concludes today's conference call. You may now disconnect.