Aeries Technology, Inc.

Fiscal Second Quarter 2025 Earnings Call

November 20, 2024

CORPORATE PARTICIPANTS

Ryan Gardella, *Investor Relations*

Sudhir Panikassery, *Co-Founder and Chief Executive Officer*

Daniel Webb, *Board Member and Chief Investment Officer*

Rajeev Nair, *Chief Financial Officer*

PRESENTATION

Operator

Greetings, and welcome to the Aeries Technology Fiscal Second Quarter Conference Call.

At this time, all participants are in a listen-only mode. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad.

As a reminder, this conference is being recorded.

I would now like to turn the call over your host, Mr. Ryan Gardella, Investor Relations for Aeries Technology. Thank you. You may begin.

Ryan Gardella

Good morning. Welcome to Aeries Technology's Fiscal Second Quarter 2025 Earnings Call.

Joining us from the Company is Chief Executive Officer and Co-founder of Aeries, Sudhir Panikassery; Chief Investment Officer, Daniel Webb; and Chief Financial Officer, Rajeev Nair. Today's call will consist of commentary around the results from the fiscal second quarter 2025, which ended on September 30, 2024.

As a reminder, this conference call contains statements about future events and expectations which are forward-looking in nature. Statements on this call may be deemed as forward-looking and actual results may differ materially. Words such as believe, estimate and expect, as well as similar expressions, are intended to identify forward-looking statements. For a full list of risks inherent to the business and the Company, please refer to the Company's SEC filings and earnings press releases. Aeries undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances that occur after the call.

Today's call and webcast will include non-GAAP financial measures within the meaning of SEC Regulation G. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, GAAP measures. When required, reconciliations of all non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP can be found in the earnings releases or other materials available on the Company's website.

With that, I'll turn the call over to Sudhir.

Sudhir Panikassery

Thank you, Operator, and thank you, everyone, for joining us.

Let's start with a high-level review of our results, followed by a discussion on our next strategy steps to reorient and reinvest in the business for sustainable long-term growth. After that, I'll pass the call over to Daniel to discuss more details of these sections.

On today's call, I'll be discussing both our full results, as well as the results of our core business, which I'll refer to as core. Our core business consists of U.S.-based, long-tenure, high-quality clients that have served as a consistent revenue base for Aeries. Our non-core markets and businesses consist of consulting projects in the Middle East, which we have now exited.

For the fiscal second quarter of 2025, our revenues were $16.8 million, down 4% from the year prior period, while our gross profit was $3.6 million, resulting in gross margin of 21.2%. However, for the second fiscal quarter, our North America revenue, which is where our core business is, was up over 13% to $15.7 million. The core business contributed positive $183,000 to our Adjusted EBITDA.

Our results in the second fiscal quarter reflect the decision to solely focus on the PE-backed (phon) portfolio businesses that serve as our core clients. This core business is primarily Global Capability Center, or GCC, and is growing significantly faster than the North American IT services industry. We are seeing new client opportunities with large contracts and favorable margins, and we have a high level of visibility into a pipeline of future clients that will make ideal partners going forward.

As I have mentioned on prior calls, North America remains our strongest end target market, representing approximately 93% of our revenue in the first fiscal quarter. This business is at the heart of the Aeries way, and we believe it will continue to be so in the near to medium term while we continue to assess potential markets worldwide based on profitability and risks of doing business.

We have also made the decision to exit the current non-core markets, which consists of consulting projects in the Middle East. Additionally, these Middle East accounts have consistently slower collection cycles, which has resulted in higher than expected credit losses, which is reflected in our financial statements. While we do expect to receive payment from majority of these in the future, the timing of payment remains uncertain. This non-core business has now gone to zero revenue, and we do not anticipate pursuing any additional business there in the near to medium term, unless certain critical business parameters are met.

Further, as I discussed last quarter, we are laser focused on realigning our costs to an optimum level that enhances profitability by laying the foundation for sustained future growth. Between our previous call and today, we have cut over $4 million of additional annualized expenses. We expect to see the full effect of these savings starting in our third fiscal quarter. In fact, even our executives, myself included, will be taking pay cuts to ensure we can quickly return to the profitable growth that our investors expect. This will be coupled with renewed focus on organic revenue growth.

Finally, I wanted to mention that one of our large clients have exercised their contractual right to buy out the offshore operations portion of their business management. They will remain a client, albeit in a smaller capacity going forward. The end result will be a large lump sum of five margin revenue in the fourth fiscal quarter of this year, but lower recurring revenue from them going forward from there. This has occurred only two other times in our history, and typically happens when there is a significant shift in the client's business strategy, necessitating them to move the operations in-house.

We believe the sum of these actions will lead us to sustained growth and deliver value to our stakeholders across the board. In fact, we are already seeing improving sequential results and expect our third quarter to be better on both the top and bottom line than the second quarter. We also expect the fourth quarter to be sequentially better than the third quarter.

With this in mind, I'd like to provide an updated financial outlook for fiscal 2025. For revenue, we are currently expecting a range of $71 million to $73 million. For core Adjusted EBITDA, we are currently expecting a range of $6 million to $7 million. Both of these items are solely inclusive of our core business.

Now, I would like to pass the call over to Daniel for some additional details on our strategic actions. Daniel?

Daniel Webb

Thanks, Sudhir, and thanks to everyone for listening today.

Our decision to focus solely on our core North America PE-backed business was based on the quality of the clients and growth prospects that we're consistently seeing in the region. We have a network of some of the biggest private equity and consulting partners in North America that already have a number of portfolio companies and clients on the Aeries platform. Clients such as Victory Live, Diligent and Quickbase, who are backed by leading private equity sponsors, help firmly embed Aeries in the network of private equity professionals that accelerate the flywheel effect of our business model.

We have a renewed focus on organic growth in North America, and are concentrated on making inroads further into portfolio companies of our private equity and consulting partners. This has historically been an area of strength for Aeries, and we are leveraging our relationships in the industry to ensure we are positioning ourselves for growth in the near and long term.

Based on our clients' feedback, our GCC model has proven to be a better solution for them than the standard consulting or digital transformation firms. The retention and length of engagement with our core client base was in the order of magnitude above our non-core business.

On average, our current core client base has been on the Aeries platform for 3.6 years, compared to the short term, consulting nature of our non-core business. Taken together, we believe that pursuing only our core business is a better use of time and resources, and will yield higher quality results and better customer retention than our non-core business. As Sudhir mentioned, we've already reduced our non-core business to zero revenue.

Moving on to our cost control measures. We have cut over $4 million from our expenses on an annualized run rate. This was primarily achieved through two phases of head count reduction. It's also served to further focus our talent on our core business. We are taking every measure possible to reduce unnecessary costs across the board, including a laser focus on controlling our outside vendor costs, including professional services and public company costs.

I'd now like to hand the call over to Rajeev for a more detailed review of our results. Rajeev?

Rajeev Nair

Thanks, Daniel.

Now I will be reviewing our financial performance for the fiscal second quarter in more detail. Our total revenues for the second fiscal quarter of 2025 were $16.9 million, which was a decrease of 4% year-over-year. Our North America revenue for the second fiscal quarter of 2025 was $15.7 million, which was a 13.3% increase, over $13.9 million year-over-year. As Sudhir discussed, going forward, we intend to focus solely on the North American GCC market and our private GCC portfolio company clients and prospects.

Our gross profit for the second fiscal quarter of 2025 was $3.6 million, which was a decrease of 26% year-over-year, and resulted in gross margin of approximately 21.2% versus 27.4% in the previous year period. As Sudhir referenced, this was largely the result of the nature and profile of the projects that shifted out of the quarter. We remain confident in the robustness of our existing revenue base and the pipeline moving forward.

Our SG&A expenses in the second fiscal quarter were $7.7 million, which was an increase of 130% year-over-year from $3.3 million. Taken together, this resulted in operating loss of $4.1 million in the second fiscal quarter of 2025.

Our GAAP net loss for the second fiscal quarter of 2025 was $2.3 million versus a net income of $927,000 in the same period from fiscal 2024.

Adjusted EBITDA for the second fiscal quarter of 2025 there was negative $2.3 million versus positive $2.9 million in the same period from fiscal 2024. Our core Adjusted EBITDA for the second fiscal quarter of 2025 was $183,000, a decrease of 82% versus $1 million in the same period for fiscal 2024.

On the balance sheet, we had $3.6 million in cash and cash equivalent for the period September 30, 2024. The total long-term debt was $1.5 million.

Thank you all for joining.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.