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Aeries Technology, Inc.

Fiscal Third Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Ryan Gardella, *Investor Relations*

Daniel S. Webb, *Chief Investment Officer*

Sudhir Panikassery, *Chief Executive Officer*

Rajeev Nair, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Jeff Martin, *Roth MKM Capital*

PRESENTATION

Operator

Good day, and welcome to the Aeries Technology Fiscal Third Quarter 2024 Earnings Conference Call. (Operator Instructions)

Please note, this event is being recorded.

I would now like to turn the conference over to Ryan Gardella. Please go ahead.

Ryan Gardella

Good afternoon, and welcome to Aeries Technology's third fiscal quarter 2024 earnings call.

Joining us from the Company is Chief Executive Officer and Co-founder of Aeries, Sudhir Panikassery; Chief Financial Officer, Rajeev Nair; and Chief Investment Officer, Daniel Webb. Today's call, we'll begin with scripted remarks, and we'll then open the participants for questions.

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.

The following webcast will include non-GAAP financial measures from 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

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most directly comparable financial measures calculated and presented in accordance with GAAP can be found in the earnings release or other materials available on the Company's website.

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

Sudhir Panikassery

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

As many of you already know, my name is Sudhir Panikassery, and I'm the CEO and Co-Founder of Aeries.

Today, I would like to walk you through some financial highlights and high-level commentary before passing it off to Daniel Webb, Chief Investment Officer, for details on some of our new customer deployments in the quarter.

I'm pleased with our end to the calendar year and happy to report that this quarter's revenue of $18.9 million exceeded our outlook, while our Adjusted EBITDA result of $2.4 million was in line with our outlook. For our third fiscal quarter, revenues were $18.9 million, representing 49% growth year-over-year, all of which was driven by new clients entering the Aeries platform.

For the first three quarters of our fiscal year, revenue was $52.8 million, representing a 39% increase over the first three quarters of our prior fiscal year. Our fiscal year-to-date growth was driven by a combination of new clients on the Aeries platform as well as additional spend from existing clients. Clearly, we are executing our growth strategy exactly as intended and are seeing strong momentum in new client acquisition. In fact, we have already exceeded our internal bookings forecast for the current quarter with over a month left to go.

North America remains our strongest end target market, representing approximately 77% of our revenue in the quarter and fiscal year-to-date. I'm also pleased to announce that we have opened a new Center of Excellence in Mexico during the quarter, which will allow us to better service our North American customers with Aeries professionals working within the same time zones.

With over a hundred Aeries professionals currently in Mexico and growing, we view building outdoor presence in Mexico as a high priority initiative to support a strategy that is of increasing importance and popularity among private equity sponsors and their portfolio companies called dual shoring (phon).

Dual shoring refers to a combination of near-shoring in locations such as Mexico, while retaining Centers of Excellence in India in order to maintain 24/7 coverage while significantly reducing costs. We will continue to build out our near-shoring capabilities for clients and believe this trend will continue to be a driver of business in the future.

I'm also pleased to announce that we opened two Centers of Excellence for two separate clients in Bangalore during the quarter, representing additional Aeries' professionals primarily in the digital transformation and business process optimization spaces.

As Rajeev will mention, the work mix of our new customers have been trending towards digital transformation, AI and analytics, which has a positive effect on our gross margins and speaks to the cutting edge transformative nature of the work that Aeries' professionals are performing for our clients.

With that, I would like to turn the call over to Daniel Webb, Chief Investment Officer, to discuss some details of new client deployments. Daniel?

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Daniel S. Webb

Thanks, Sudhir, and thanks again to everyone for being on the call.

I wanted to talk about some of our recently announced customer wins and deployments. In Bangalore, we partnered with a leading provider of investment management solutions to leverage Aeries world class talent in the digital transformation and process optimization spaces. This is a large, long-term collaboration that will leverage the world class talent of Aeries professionals and bring leading edge innovations and best-in-market practices that can only come from a provider with the cross-industry insight that we bring. The scale, flexibility and cost efficiencies that we are providing to this client while simplifying the tax and local talent acquisition was of key selling point, and we look forward to working with this new client for years to come.

In Mexico, we partnered with a global technology company to bring near-shore scale, improved efficiency, and streamline operations. As Sudhir mentioned, near-shoring is part of a combined dual shoring strategy being employed by our prospects and clients to fill in the time zone gaps across critical business functions.

Our differentiated digital transformation and tech-enabled service offerings have resulted in industry-leading growth in calendar year 2023. We grew revenue 35% in calendar year 2023 versus approximately 5% for our public comparable peer set. Our revenue growth continues to accelerate, and we expect to grow between 40% and 54% in the calendar year 2024 compared to calendar year 2023.

The highest growth comparable company in our peer set is expected to grow approximately 17% in calendar year 2024. We expect word of mouth and expansion within our current private equity customers to continue to be our biggest driver of growth in calendar year 2024.

Lastly, in terms of inorganic growth, Aeries continues to opportunistically evaluate acquisition targets and believe this will be a significant driver of accelerated growth going forward.

Now, I'd like to turn it over to Rajeev Nair, CFO, for more detailed view of the financials. Rajeev?

Rajeev Nair

Thank you, Daniel.

I will now walk through our third quarter numbers in more detail. Our total revenues for the third quarter were $18.9 million, which was an increase of 49% year-over-year. The increase was due to a $6.8 million increase in new client revenues with a number of new logos entering the Aeries platform. Slightly offsetting this was a $0.5 million decrease from existing client ramp down. I want to be clear that this ramp down was due to the normal ebbs and flows of certain projects. We did not lose any clients in this period and want to remind investors that small fluctuations with existing clients can be considered normal from quarter-to-quarter.

For the nine months ended December 31, our revenues were $52.8 million, representing 39% growth year-over-year. This was due to a mix of new clients coming to the Aeries platform as well as additional spend with existing clients.

Our gross profit for the third quarter was $6 million, which was an increase of 161% year-over-year, and resulted in a gross margin of approximately 32% versus 18% in the same period from 2023. This was largely the result of a shift in revenue mix towards more of digital transformation, AI and analytic services, which are generally higher gross margin services. We believe we are seeing a secular shift towards these solutions, and we expect our mix to continue to shift more towards digital transformation, AI and analytics.

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Our SG&A expenses in the third quarter were $5.3 million, which was an increase of 162% year-over-year from $2 million. This was largely due to a $1.9 million increase in legal and professional services in connection with our successful transition to a public company, as well as a $1.1 million charge related to an element for a customer receivable. Taken together, this resulted in operating income of $733,000 in the third quarter, which was an increase of 150% compared to $293,000 in the same period of 2023. For the nine months ended on December 31, we generated an operating income of $3 million, which was up 107% from approximately $1.4 million in the same period for 2023.

As we mentioned in our press release, there was a $16.4 million non-cash charge related to change in fair value of the forward purchase agreement we issued upon closing of the business combination. This resulted in a GAAP net loss for the third quarter of $16.4 million, versus a net loss of $270,000 in the same period of 2023.

Adjusted EBITDA for the third quarter of 2024 was $2.4 million, a decrease of less than 1% year-over-year, which was in line with our expectations, as Sudhir noted. On the balance sheet, we had $6.5 million in cash for the period ending December 31, 2023. The total long-term debt was $1.1 million.

Finally, as mentioned in our press release, I wanted to reiterate our outlook for the calendar year 2024. We are expecting a total revenue of between $95 million and $105 million and an Adjusted EBITDA of between $16 million and $20 million.

Thank you all for joining. With that, I would like to ask the Operator to open the line for questions. Operator?

Operator

Certainly. (Operator Instructions) We have a question from Jeff Martin with Roth MKM Capital. Please go ahead.

Jeff Martin

Thanks. Good morning and good evening, guys. Wanted to touch on client additions during calendar 2023. How many clients did you bring on? How many new private equity firms are you now doing business with that you weren't doing 12 months ago? Then also, the mix of revenue of these clients that you brought on, sounds like you're expecting a continued shift towards more digital and consulting in the next several quarters here.

Sudhir Panikassery

Yes. To give you a broad overview of this before I hand it over to Daniel to describe in detail. The transformation of our services engagement is moving quite according to plan in terms of additional transformation over a fundamental base of services offering under the unique engagement model that we have. That is one.

The second is the private equity stakeholders that we are working with, that are around 10 of them right now, all of them marquee names. Each of them has started expanding us into their existing portfolio companies, which are much larger in size as compared to the ones we have been working with in the past. That gives us a good deal of confidence with respect to the velocity and acceleration.

Daniel, over to you to explain this further.

Daniel S. Webb

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Yes. For calendar 2023, there are about 10 new clients, which was our best year as far as new clients. Going in 2024, we're seeing that continuing to accelerate. We expect this year, if we stay on track, we'll have more than that. Those are still within those private equity firms. The strategy will be to continue to add on additional private equity firms as well as growth and the private equity firms that are already there. I'll stop there and see if there's anything else that was asked.

Jeff Martin

Yes, I don't know if you can give the mix of business in the third quarter or maybe in calendar ‘23 digital versus BPM and how much you anticipate that shifting in calendar ‘24?

Daniel S. Webb

(Multiple speakers) Go ahead. Yes, go ahead.

Sudhir Panikassery

Yes, I was going to say that, Jeff, we don't typically provide a breakdown of the exact amounts, but we are clearly seeing a shift towards the digital transformation offerings which we are offering to our existing clients. To give you a flavor, there are four customers, existing customers, where we have started supporting them on their own Generative AI and natural language processing, which is AI and robotic process automation efforts. We are clearly seeing the shift, which is also reflected in the higher gross margins which we reported in Q3.

Jeff Martin

Okay. Then along those lines, what do you view AI as an opportunity, short-term, near-term, intermediate term, and maybe a threat longer-term, obviously, curious if you think AI ultimately displaces some of the processes that maybe you’re doing today (inaudible).

Sudhir Panikassery

Very broadly, Jeff. We view AI internally as, from a customer perspective, as a productivity tool and also as a business enhancement tool. While we do believe that at the end of the day, it will, in certain functions, reduce the need for resources. But on the higher end paying areas like technology, analytics, the AI engine evolution, and evolving practical solutions around AI, the opportunities keep on expanding and that is a direction we are very clearly taking. With respect to each and every of the customers, all of them, that are partnering with us in this, have very clear strategies with respect to adoption of AI within their system. We believe that that will accelerate our own revenue mix transformation over the future quarters.

Rajeev, you want to elaborate anything more on this?

Rajeev Nair

Yes, Sudhir. Thank you. Jeff, in addition to what Sudhir mentioned, we have the clear longstanding customer relationships. Now, when our customers are embarking on their own AI strategy, say for example, one of our customer, they want to build a large language model specific to their industry and their business, and immediately they turn to us for all the support services related to building the model. That's a process which we can undertake efficiently, and we can scale up the team very well in Bangalore or in Mumbai, rather than doing that process in the U.S.

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Now, when you are building a large language model, there's a lot of associated activities, for example, collecting the data, ingesting the data, cleaning the data, and these are all things which are high value engineer based in the U.S. doesn't want to do. Also, it needs a lot of manpower to do this work. We have our engineers sitting in Bangalore efficiently and cost effectively doing this kind of work, for example, using Python to scrape the FCC (phon) website and collect some information, which goes into the large language model our client is building. That kind of a shift we are seeing clearly in our customer. The primary driver is that we have the longstanding relationship. We have proven our capabilities and the customer trust us, and now we are pivoting that into the AI-related services and also analytics.

Jeff Martin

Great. Then I wanted to dive in on the availability of talent. What's the labor market like today versus maybe a year or two years ago? Are you seeing wage inflation come down? How has retention been trending?

Sudhir Panikassery

Daniel, you want to take that?

Daniel S. Webb

Yes, retention has been trending positively. I think overall, we had in our investor presentation about 8%. It's now down to about 4%. We're seeing that on its own is well ahead of where the industry is. We're seeing our differentiated model play through on there. We're also just seeing in trends in the industry that overall, the market is getting easier for talent. We think there was a significant need for talent when there was a lot of venture capitals—venture dollars going into new startups with—that became a time where that was more difficult to get very good software development talent.

But now we've seen that go away and a lot more talent in the pool. We've been able to scale up quickly for a handful of our customers building out Centers of Excellence, building out large teams in a quick amount of time. We think that we're going to a period right now where it's, relative to two years ago, much easier to get the talent and to get them at the right price and to retain them.

Jeff Martin

Okay. Then last one for me is on the sales investment side. I believe you've made some investments in the recent past. What's your plan for this year in terms of adding additional sales resources and what's the longer term strategy? I know there's some other things that (multiple speakers).

Sudhir Panikassery

So far, as we have publicly put across in our multiple presentations and discussions over the period of time. Past decade or so, we have grown with very little sales effort through what we call as a network effect. It's basically relationships, connections, referrals, and so on and so forth, of people who have worked with us from the customer side and from the private equity side, who have reaped the benefits of working with us in this unique engagement model. That has led us to this fast clip of growth over the years.

As of today, we have a very good base of referenceable clients, and leveraging that as we speak today, we have set up a pretty strong sales and marketing team with focus on two streams. One, which is focusing on accelerating our private equity relationships and getting into their portfolio company ecosystem. The second is, leveraging our unique engagement model and the benefits that has brought to multiple businesses who have worked with us to take that as a disruptive force to midsize U.S. companies. These

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two elements have been put in place in terms of sales marketing team. Organically, that's the strategy we adopted to accelerate our growth.

In terms of progress and the path forward, Daniel, I hand it over to you.

Daniel S. Webb

Sorry. Go back and whatever was left of the question that he didn't cover, and then I'll fill in the blanks.

Rajeev Nair

On the sales expenses, I can give some numbers, Jeff. The SG&A expense for last quarter were $5.3 million, which is an increase from the September quarter, which was around $1.6 million. We are clearly investing in our sales team, and we have added more people in the U.S. and our Mexico operations are growing very rapidly. We will also look at increasing our sales efforts in the Asia Pacific region as well.

There's a lot of stress given and investment we are making in terms of the sales team and sales strategy, which we expect to result in a significant growth like the way we are seeing in the past, say 30% to 40% or even more.

Jeff Martin

Great. I think that answers the questions well. Thank you, guys.

Sudhir Panikassery

Thanks.

Rajeev Nair

Thank you.

Operator

Thank you.

Ryan Gardella

Thank you, everyone.

Operator

We have no further questions.

Ryan Gardella

Okay, we appreciate everyone for joining, and I think we can end the call there. Thank you.

Sudhir Panikassery

Okay. Thanks. Carry on.

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Operator

Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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