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<<Analyst, KeyBanc Capital Markets>>

All right. Good morning, everyone. Kicking off day two here of the KeyBanc Technology Leadership Forum here in Deer Valley. Very pleased to be joined by Gary Merrill and Mike Melnyk of Commvault, as we smile here for our picture. Just before maybe we dive into like talking about some of the earnings from a couple of weeks ago, I did want to talk about the kind of market landscape, Commvault, and Gary, your role a little bit, too.

So just set the stage in terms of like how the backup data protection market has evolved over the last few years. Have you seen it? And then also, second to that, talk about your role, your position. You’ve been at Commvault a long time, but you had a recent change of seats the last couple of years. Let’s just revisit that again.

<<Gary Merrill, Chief Financial Officer>>

Absolutely. So first, thanks for having me here. Really happy to be here, really glad to be able to tell our story a little bit. So we’ve relentlessly tried to innovate, and as the market has matured away from backup and recovery and now truly to cyber resilience, which has happened at an accelerated pace, I would say, over the last three years. That innovation is beyond market, it’s acquisition and integration, and now, sitting in a space that is a top IT spending priority, and a space that will continue to have major tailwinds for many years to come across security and AI.

So really pleased to be helping to lead that charge. I did spend a couple of years in go-to-market as our Chief Commercial Officer, leading our go-to-market teams globally. I took that as a route to try and help accelerate our growth. During that time, we crossed $1 billion of ARR, and now I’m back as CFO, but also being able to use that commercial experience that I attained globally, working with our partners, working with the hyperscalers, and trying to get ready to scale us to the next stage of growth.

<<Analyst, KeyBanc Capital Markets>>

Awesome. Yeah, I think that’s always a highlight for investors, an underappreciated part of the story. I thought you brought a lot of like operational rigor and execution to the go-to-market organization. Can you just share a little bit on your two years, maybe like what you’re most proud of or where you maybe…

<<Gary Merrill, Chief Financial Officer>>

Yeah.

<<Analyst, KeyBanc Capital Markets>>

Had the biggest impact?

<<Gary Merrill, Chief Financial Officer>>

Most proud of, I would say, is driving our growth past $1 billion of ARR, and accelerating both our revenue and ARR growth to significant levels. Now that was done through a combination of both the operational rigor that myself and the team brought to how we approach go-to-market, but it also was very important in maturing key relationships in the ecosystem. So whether it's establishing technology integrations with security partners, expanding our reach with hyperscalers.

And the hyperscalers have a major impact on our market as we go to market with them through co-market, co-sell, co-development efforts. So maturing those routes to market and driving the leverage, and then probably most importantly, taking advantage of the implication that recovery has related to security.

<<Analyst, KeyBanc Capital Markets>>

Yeah. Then lastly on this idea, you said tailwinds for multiple years. So like what was the main genesis for people to invest in Commvault in the data protection space like historically, and how do you think about the priorities and how that might be shifting going forward to make this a multi-year trend?

<<Gary Merrill, Chief Financial Officer>>

Historically, our space was considered backup. Okay?

<<Analyst, KeyBanc Capital Markets>>

Yeah.

<<Gary Merrill, Chief Financial Officer>>

And what's accelerated is away from backup and the relevance of recovery. That's the massive change that's happened in our space over my tenure at Commvault, and every year, it continues to accelerate even more. If you look at the market dynamics now of where we sit, okay, we sit with three key tailwinds that are driving growth today. Literally growth today. One would be ransomware, second would be hybrid cloud complexity, and the third would be governance.

So if you just combine those three, they're secular tailwinds that have sustained momentum, and you layer that against the market opportunity we sit in. We sit in this amazing TAM where we have a massive on-premises data protection that's probably growing mid-single digits. There's a cloud data protection market that's growing double-digits.

Then there's adjacent markets such as identity resilience, data security, cloud-native protection, that some believe are growing 20% a year. So massive acceleration. That's all before the world of AI. AI will become the next tailwind that will come into our space, because in an AI-first world, it's all about data and leveraging your data, and it's a sweet spot straight for Commvault.

<<Analyst, KeyBanc Capital Markets>>

Let's talk about earnings from a couple of weeks ago. And look, I had the perspective, just kind of going into calendar 2Q earnings, that like things got a little maybe ahead of itself in terms of anticipation of an inflection in demand in cyber and whatnot. I think broadly speaking, we haven't quite really seen that materialize as we reflect on earnings season. And I think you guys went first, and maybe you guys, kind of got hit on the chin a little bit harder than others for being first. But from your perspective, let's revisit Q1 in terms of like how this played out versus your expectations, what the strength was in the quarter, what you were pleased with.

<<Gary Merrill, Chief Financial Officer>>

It was a solid quarter for Commvault, almost identical to our expectations. If I look at the key metrics, Subscription ARR grew 22% ARR. Our SaaS ARR business grew 38% year-over-year. It's a combo of driving new customer logo and existing customer business. We added 500 new subscription customers to our company. We maintained our subscription net dollar retention at 114%, and if you add to that, we expanded our EBIT margins to almost 23%, which was a 10-year high from a quarterly perspective in EBIT margins.

So if you think about starting a fiscal year in a period where we had some pretty significant executive changes with me moving to CFO, Geoff Hayden coming in as our new President, driving the go-to-market function. And we've restructured the way we thought about our forward-looking guidance, and we ended up exactly where we wanted to be. So we're very pleased with the start we had. It sets us up to execute against our fiscal year guidance.

<<Analyst, KeyBanc Capital Markets>>

And one of the things you were very clear when you came back into the seat that you wanted to, I don't know, simplify some of the metrics, simplify some of the KPIs, which is an honorable thing, and I think we appreciate it, and us modeling it, appreciate it, to try to simplify it. But I think it still warrants some nuance and understanding some of the dynamics and whatever else. So net new ARR, I think, is a key thing that we like to focus on, and on a USD basis, you try to keep it simplified. I think optically, on the surface, it doesn't look so great, et cetera, but I think there's some FX dynamics. So like on an FX basis, like how should we think about how net new ARR was?

<<Gary Merrill, Chief Financial Officer>>

Yeah. It's a great question. Subscription ARR is one of our primary key metrics that we evaluate ourselves against and that we guide against on an annual basis. On an as-reported basis, we've reported net new Subscription ARR of $39 million. On an actual basis, year-over-year, in Q1 of last year, we had Subscription net new ARR of $65 million. However, the year-over-year is skewed because of FX, primarily in the prior year. That $65 million last year had significant FX tailwinds that drove the number.

On a constant currency basis, the net new Subscription ARR in Q1 a year ago was approximately $43 million. Like-for-like, we stated on the earnings call that currency was a headwind in this Q1, so like-for-like basis, our Subscription net new ARR would've been approximately $41 million.

So if you strip out the FX and look at the underlying state of the business, the net new Subscription ARR Q1 this year versus Q1 last year was comparable. I think that's the net answer, which we expected going in, right. It's nothing – it wasn't a new dynamic, it's just clarifying the impact of foreign exchange on that Subscription net new ARR.

The other piece that does contribute to it is our conversion. We continue to convert business from our legacy perpetual business into subscription, and that was a little bit lighter in Q1 versus a year ago, which then drives the ultimate conclusion that the fundamental strength of where we want the business, the organic strength of our Subscription ARR, excluding FX, was actually solid.

<<Analyst, KeyBanc Capital Markets>>

Why was the perpetual to term or perpetual to SaaS a little bit lighter than a year ago, or – how was it versus expectations?

<<Gary Merrill, Chief Financial Officer>>

Yeah. It was a little lighter versus a year ago, only because that population is getting much smaller, okay. So we expect that tail to continue to decline over a couple of years. There can be anomalies quarter-to-quarter based on opportunities to convert customers. The key for us, though, is making sure that the underlying piece of the business, which is the true organic piece of the business, much of it's led by our SaaS business, which is not benefited by any significant amount relative to conversions, continue to grow strong.

<<Analyst, KeyBanc Capital Markets>>

I won't ask you or Mike to do a net new ARR growth ex-conversions, constant currency adjusted basis either. Okay, then you also, look, you wanted to, I think you communicated when you came back into the seat that you also wanted to be prudent. Early in the year, you didn't want to get ahead of yourselves, get over your skis. So the approach to guidance was kind of as you expected to do it. That was kind of what you committed to like, in terms of keeping the guidance just early start to the year, don't want to get ahead of yourself. Is that fair?

<<Gary Merrill, Chief Financial Officer>>

Yeah. My approach to guidance, especially coming out of the start of a fiscal year, so start of the fiscal year with some transition in the company was to give a view on an annual basis, especially related to ARR, okay. We guided to about 19% year-over-year growth on an annual basis for that Subscription ARR balance. Coming out of Q1, we landed within range of what we expected.

On the revenue side, a little bit higher, and relative to the net new ARR, right on track. With that, my view was we would continue on with the guidance, and then the halfway point of the year is a more logical point to reassess the guidance structure.

<<Analyst, KeyBanc Capital Markets>>

Got it. Now again, so I don't know if this is the right question but just looking at the second half of the year to meet the guidance, it does imply a little bit more seasonality in the second half and some acceleration in net new ARR growth. So is that – what's driving that seasonality or that acceleration?

<<Gary Merrill, Chief Financial Officer>>

Yeah, a few points. We're getting the growth in Subscription ARR from exactly where we want it, which is our SaaS business. Okay. Our SaaS business growing at 38% a year means that we are compounding pretty significantly year-over-year the customer base. The greatest opportunity to drive growth in the near-term is through that cross-sell motion.

So what happens as you get the compounded growth, and if you look at our results from a year ago, we had pretty significant SaaS growth in the second half of last fiscal year, which means that renewal opportunities that are coming up in the second half of this fiscal year are prime for cross-sell. Cross-sell and multi-product expansion. So that's where, if we think about the second half, that we'll see pretty significant opportunity to really start driving accelerated growth opportunity.

Now, we talked about Q1 Subscription net new ARR of, call it on a constant currency basis, roughly $41 million. If we think about how we expect the year to play out, so while we don't guide on a quarterly basis, just to give a little bit of perspective how we think the year should unfold relative to the guidance.

For fiscal Q2, we do expect a modest step-up from fiscal Q1, the quarter that we're in right now. So modest step-up from fiscal Q1, and then as we said, the bigger step-up to happen in the second half relative to that cross-sell opportunity. So what has to happen to really achieve that is if you think about the success we're having with identity and data security, it's already driving a material portion of our net new ARR.

The cloud-native workload opportunity that we have, such as the Clumio opportunity on AWS and the massive datasets that sit out there, some of them which are big AI datasets, has a nice opportunity set up for the second half. So as we look out at the pipeline opportunity that we see, the market dynamics, the compounding growth of our SaaS business, we're really starting to set up this flywheel on the SaaS business that is primed to see some acceleration.

<<Analyst, KeyBanc Capital Markets>>

Yeah. So a couple of things I want to come back to there.

<<Gary Merrill, Chief Financial Officer>>

Sure.

<<Analyst, KeyBanc Capital Markets>>

Just one thing, a clarification. So the SaaS-based, renewal-based comes up in the second half, and I think it seems like a bigger renewal-based opportunity and cross-sell opportunity. One year contracts I think is quite typical of these customers. Are they on Unity, the ones that you signed in the second half of last year?

<<Gary Merrill, Chief Financial Officer>>

Okay. So from a SaaS perspective, first we'll talk about how our SaaS customers buy, our customers in the cloud. When I say SaaS, it's cloud workloads. Typically, those contracts range from one year to two years, okay. I've talked about historically, we have a mix of one year and two year deals. So therefore, every year we have opportunity that's coming up for cross-sell opportunity and expansion. Even if a customer buys during the year from a SaaS perspective, they usually co-term to the renewal as well.

So therefore, an easy indicator of seeing opportunity for compounded growth and durable compounded growth in our SaaS business is just looking at the trends of how that ARR is growing. So therefore, it sets us up to keep driving that multi-product expansion. In that SaaS business, we're still slightly under 50% of our SaaS customers that are Commvault managed that have more than one product.

We're still only roughly 20% penetrated in identity resilience. So we're driving these motions in go-to-market to drive that cross-sell motion. The strength of the SaaS platform is you're always on current version. So if you think about the concept of Unity that we released back in November, it's about discovery, visibility, it's the customer motion to make sure that all of their workloads are protected, okay. That's perfect for a SaaS platform because customers are always on current releases. So therefore, our ability to drive, educate, and get them onto multi-product adoption is prime every single year.

<<Analyst, KeyBanc Capital Markets>>

Now, Unity should bode well for driving more cross-sell, broader adoption of the platform, correct?

<<Gary Merrill, Chief Financial Officer>>

Yeah. So, November will come up on the one year, the one year of how we announced the concept of our Unity platform. So think of Unity as a platform. It brings both the on-premise and the SaaS and cloud world together for a customer to truly manage their environments, discover unprotected workloads, set their policies, et cetera. So it's a foundation for everything we're doing related to driving multi-product adoption in our platform approach. So the direct answer is yes.

<<Analyst, KeyBanc Capital Markets>>

Yeah. Now margins, you highlighted at the beginning, I wanted to come back to that. And it was, yeah, 23% might be a high watermark or a recent high watermark and it was up meaningfully year-over-year. So what's driving the margin expansion opportunity, the durability of that?

<<Gary Merrill, Chief Financial Officer>>

Yeah. We're really proud of the improvements we're making on margin. Now driving margin expansion and free cash flow growth is imperative. It's one of our key priorities. If I think about the balance of – we talk a lot about subscription ARR and the impacts that have on the valuation of the company and durable growth. When you bring in the improvements we're making in our margins, it's a nice complement to that.

Now, massive improvements we've achieved on our SaaS business. So we talk a lot about our SaaS business, but scaling our SaaS business to SaaS gross margins of 70% has been an objective we've been talking about for many years. We've achieved it. We've achieved it through working with the hyperscalers, optimizing our infrastructure, integrating our acquisitions to getting into actual scale. So where we're seeing the margins in our SaaS business in Q1, we expect that to continue.

And that is foundational to driving durable growth of kind of the SaaS business that we're truly driving. That also then helps drop down to EBIT margin and was a key contributor to our ability to drive EBIT margin expansion, like we said, roughly 23%, a 10-year high. Now, as we continue to invest, and these are selective investments where we think about investing primarily continued investments in go-to-market, continued investments in product and innovation. However, we've been very clear that in the near-term we are expecting to keep our OpEx investments, right, below revenue growth, so therefore, we continue to drive growth in the top line and balance that with margins at the same time.

<<Analyst, KeyBanc Capital Markets>>

Yeah. And you're even facing a little bit of headwind on term and duration at the same time, right? I don't know if it's…

<<Gary Merrill, Chief Financial Officer>>

A little bit. I would say it's at the fringe as customers always continue to evaluate the balance of their on-premise versus cloud workloads. That's the only impact. The only impact in our business right now as it relates to term length of deals is just the balance of where they expect their workloads to follow to make sure that they're not making short-term decisions on-premise that really are better suited long-term for the cloud, both of which we help them with.

<<Analyst, KeyBanc Capital Markets>>

Yeah. And then like just the hardware dynamic, that remains something that's in the market and something to be cognizant of, but obviously you're managing through it and it's something you're able to execute around and what have you.

<<Gary Merrill, Chief Financial Officer>>

Hardware dynamics, I would say, have – are relatively consistent quarter-over-quarter. Okay. It's clear that any time that if it's an on-premise deal, it's a competitive takeout. Generally, those RFPs are centered around a hardware refresh as well. So there will always be hardware dynamics in the on-premise in the current environment.

I think the one thing that we've seen is our ability to navigate that, but also the stabilization of it. If you kind of look at our term software piece of our net new ARR, we talk a lot about the SaaS contribution, which is accelerating. But if you look at the term software contribution in net ARR, you can actually see a slight – very slight uptick from Q4 to Q1. That demonstrates our ability to navigate what's happening in the supply chain constraints that are happening in the short-term.

Now, on the flip side, if you look at what's happening, as I talk about in our SaaS business and the massive acceleration, in Q1 we had net new ARR in the SaaS business of about $25 million. So $25 million out of the $39 million actuals was SaaS, the remainder term software. Year-over-year, last year the SaaS business only contributed $18 million. So you're seeing massive growth and contribution of our subscription net new ARR from the SaaS business.

In this time of hardware constraints on availability at times, it allows customers just to prioritize if it makes sense for them and for us working together on projects to sometimes prioritize some of those cloud workload projects to drive that durability because there's no hardware, there's no infrastructure, and there's very limited pricing implications in our SaaS business.

<<Analyst, KeyBanc Capital Markets>>

I'm going to ask you one more, Gary, then see if there's any questions. So if anybody has any, I'll throw it over to you in a minute. But share buybacks was much lower this quarter than it's been, and you talked about returning about 60% of free cash flow to shareholders. And what was the dynamic this quarter? How should we think about it for the balance of the year going forward?

<<Gary Merrill, Chief Financial Officer>>

Yeah, committed to a minimum of 60% of free cash flow. From a capital allocation, strategically, we still view buybacks as one of the best sources of excess free cash. And we're generating significant amounts of free cash flow. We've lowered our share count significantly over the past year with over $400 million of share buybacks. As we transitioned into Q1, it was just the transition off of fiscal Q4, which was over $200 million as we transition to Q1. I would expect the buybacks in the current quarter to obviously – that we're currently in now fiscal Q2, to accelerate to get back on pace to a minimum of 60% for the foreseeable future.

<<Analyst, KeyBanc Capital Markets>>

Excellent. Any questions in the audience? Yeah.

Q&A

<Q>: Just outside of your business, the industry demands are changing rapidly from costs coming inputs into the hardware side and the cybersecurity side is changing constantly as well because of AI. How are you thinking about prioritizing, one, I guess, on hardware costs or anything that's really affected your business in terms of pressures that exist on the outside?

<A – Gary Merrill>: Yeah. So this is the one area I was going to hit in my closing, actually. So you asked the right question, actually. So perfect segue to kind of think about closing is that the prioritization right now from an innovation partnership, partnerships are very key,

partnership in the ecosystem, whether it's hyperscalers, whether it's storage type OEM providers is making sure that we're set up for the next phase of secular growth, which will be the tailwind that will become related to AI-driven growth in an AI-first world. Okay.

Right now in fiscal year 2027, there's no upside in my guidance related to accelerated data growth related to AI. However, we are very confident that AI will become a secular tailwind and all of our concentration related to innovation and related to go-to-market is aligning the intersection of security and AI. So what does that mean in an AI-first world? Data is going to be more relevant. Data growth should accelerate. The controls and governance and access over the identities related to that data are going to be more complex than ever. Non-human identities relative to human identities will exponentially – would exponentially grow.

So prioritization for us is preparing for this next wave of growth that we expect to hit our space where data becomes even more valuable in an AI-first world. It's harder to manage. Security becomes even a higher priority, governance is more difficult and recovery transitions that almost become the new security. So we're thinking about the next phase of growth FY2028 for us, FY2029 beyond is capturing, which we believe is accelerated market opportunity in an AI-first world because we believe that an AI-first world, worst case for Commvault is neutral. It's only upside for us. And that upside is not yet factored into anything in the near-term.

<Q>: Yeah. We've been sharing with our clients just like the idea of like, I don't know, the analogy of like if the weatherman says it's going to be a bad hurricane season, you may want to buy more insurance. And it seems like AI makes it seem like it's going to be more likely to have a horrific hurricane season with disruptions and ransomware and activity that's just nefarious on the network and all that kind of stuff. And resilience becomes bigger part of like the strategy to like how we be resilient, because it still seems like we're far from figuring out how exactly we're going to secure this, but like resilience and being able to remain operational seems key. So, I don't know, it's kind of a layup to you to get your feedback and if that's materializing or resonating.

<A – Gary Merrill>: It absolutely is – we believe our space will become – recovery will become the new most important relevant factor for security. And you use the insurance analogy. It's the difference between life insurance, something you buy when you probably will never need it. But think about our space more as like health insurance concept where you know you're going to need it, so you better have it. You better have it because it's going to come. And in the AI-first world where the penetrations happen quicker and the ability to protect your estate becomes even more relevant to keep your business online. Recovery over large datasets, complex environments, multi-cloud and hybrid is where we think we'll accelerate.

<<Analyst, KeyBanc Capital Markets>>

All right, let's give a round of applause for Gary. Thank you.

<<Gary Merrill, Chief Financial Officer>>

Thank you, everybody.