

Box Inc.
First Quarter Fiscal 2025
Conference Call Remarks
May 28, 2024

Introduction

Good afternoon and welcome to Box's First Quarter Fiscal 2025 Earnings Conference Call. I am Cynthia Hiponia, Vice President Investor Relations. On the call today, we have Aaron Levie, Box co-founder and CEO and Dylan Smith, Box co-founder and CFO. Following our prepared remarks, we will take your questions.

Today's call is being webcast and will also be available for replay on our Investor Relations website at www.box.com/investors. Our webcast will be audio only. However supplemental slides are now available for download from our website. We'll also post the highlights of today's call on the X platform at the handle @BoxIncIR.

On this call, we will be making forward-looking statements including:

- Our second quarter and full year fiscal 2025 financial guidance, and our expectations regarding our financial performance for fiscal 2025 and future periods, including our free cash flow, gross margins, operating margins, operating leverage, future profitability, net retention rates, remaining performance obligations, revenue and billings, and the impact of foreign currency exchange rates; and
- Our expectations regarding
 - the size of our market opportunity;
 - our planned investments, future product offerings, and growth strategies;
 - our ability to achieve our revenue, operating margins and other operating model targets;
 - the timing and market adoption of, and benefits from, our new products, pricing models, and partnerships;

- our ability to address enterprise challenges and deliver cost savings for our customers;
- the impact of the macro environment on our business and operating results; and
- our capital allocation strategies, including potential repurchase of our common stock.

These statements reflect our best judgment based on factors currently known to us, and actual events or results may differ materially. Please refer to our earnings press release filed today and the risk factors in documents we file with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K for information on risks and uncertainties that may cause actual results to differ materially from statements made on this earnings call. These forward-looking statements are being made as of today, May 28, 2024, and we disclaim any obligation to update or revise them should they change or cease to be up-to-date.

In addition, during today's call, we will discuss non-GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, our GAAP results. You can find additional disclosures regarding these non-GAAP measures, including reconciliations with comparable GAAP results, in our earnings press release and in the related supplemental slides which can be found on the Investor Relations page of our website. Unless otherwise indicated, all references to financial measures are on a non-GAAP basis.

With that, let me turn the call over to Aaron.

First Quarter Fiscal 2025 Overview

Thank you, Cynthia, and thanks everyone for joining us today.

We are pleased to have delivered first quarter operating results above our guidance. This includes revenue growth of 5% year-over-year, and 8% on a constant currency

basis, in addition to a strong focus on profitability, which resulted in operating margins of 27%, up 400 basis points from a year ago. While we continued to experience headwinds in FX that are reflected in our updated guidance, we were overall pleased with execution in the quarter.

As we shared in our last earnings call, we are in a new chapter for Box – one that is driven by AI transformation. We saw this in Q1 which was defined by continued AI momentum with customers choosing Box as a platform to enable intelligent ways of working. Demand for Box AI and our upcoming more advanced capabilities continues to grow – and since we rolled out Box AI to Enterprise Plus customers last year, we have seen an increasing number of customers upgrade to Enterprise Plus in order to gain access to Box AI. In fact, we saw a meaningful increase in wins by revenue in Q1 where Box AI was central to the win than in Q4. Customer examples in Q1 include:

- A commercial real estate firm that upgraded to Enterprise Plus for access to Box AI along with additional security and e-sign functionality. They will be using Box AI to identify patterns across client leases, in addition to client analysis, and generating marketing content.
- A leading global commerce company that moved to Enterprise Plus to gain access to Box AI and Box Hubs as they look to bring content together in a central location and extract the value from their unstructured content with enterprise-grade security controls that Box provides.

Over the past quarter, we've hosted Box AI Connect events across major cities in the US and Europe, and I've had a chance to meet with hundreds of IT leaders and business executives from some of our top prospects and existing clients. What stands out to me is how significant of an opportunity these leaders believe they have around new ways of working with their content and the power of AI.

All of the insights necessary to create better business decisions and smoother business processes are living inside of an enterprise's content. It's the key data points inside

contracts that help businesses close new deals; the assets that create a major new ad campaign; the manufacturing and R&D files that enables the next breakthrough product to ship on time; and the financial documents that help close the books smoothly. Yet, for as important as all this unstructured data is – and it makes up 90% of our corporate information – we’ve never been able to fully extract all of the value from it. We can’t ask questions easily and pull insights from this content; we can’t synthesize, summarize, or calculate against it; and only in limited situations, often with massive investments in labor and intensive processes, have we been able to automate workflows around it.

But this is all changing. With the latest breakthroughs in AI, we can finally tap into the full value of our content by extracting insights from it, and letting anyone ask questions of this data, we can structure the data within our content to automate our content-centric business processes, and we can better protect our most important information.

But we can’t do this with traditional, fragmented approaches to managing content. Not only are legacy ECM, document management, and collaboration systems too complex and costly to maintain and often unsecure – it’s also nearly impossible to leverage AI against all these silos. This will lead to a continued disruption of the traditional Enterprise Content Management landscape.

This is the opportunity that is driving our strategy and that Box is uniquely positioned to accelerate. *We are leading the era of Intelligent Content Management.* And our Q1 wins and momentum highlight the sheer size and potential of this opportunity.

Our Intelligent Content Cloud delivers the most secure way to power collaboration, workflow automation, and content intelligence in a single platform, and we’ve been building towards this vision for several years.

To deliver the full value of content in the AI enabled era of work and business processes, we’re focused on four areas of innovation.

Starting with workflow and collaboration, with the beta release of AI enabled Box Hubs in mid-May, we are transforming how companies can distribute content through an organization. Box Hubs provides a new lens into all of the content that customers collaborate on in Box with intelligent portals that simplify curation, organization, and publishing — no matter the file type or where it lives in Box. This means you can put the right content into the right teammates' hands when they need it most. And with Box AI for Hubs in beta also rolling out to Enterprise Plus customers, viewers can ask questions across multiple documents curated in the Hub and tap into insights from their data with AI to get answers in seconds. Importantly, this provides enterprises an instant way to deliver Retrieval Augmented Generation use-cases in AI around large groups of content that can be instantly enabled with no-code.

With Box AI, customers will soon be able to extract metadata from a large number of document and content types within their enterprise. Once you have metadata on content, you can automate almost any workflow in the enterprise – from invoice processing and contract management to digital asset management and clinical trial management. This is why we acquired Crooze back in December, and we are working aggressively to natively integrate Crooze's no-code application building and metadata features into Box to support powering content-centric workflows on Box. We'll share more around how these technologies are coming together throughout FY25.

Across security and compliance, we are working to expand Box Shield features for advanced data security, introduce a new native archiving solution later this year, and accomplish critical compliance levels like FedRAMP High to expand our use cases in Federal government.

We are also doubling down on our open platform to support deeper integrations with Salesforce, Slack, Microsoft Teams, Microsoft Copilot, IBM Technologies, and our customers' custom-built applications. To further highlight the power of our platform, at ServiceNow's Knowledge 2024 keynote, ServiceNow highlighted Box as a content repository to demonstrate the value of their Now Assist AI product. Going forward, Box

is well positioned to be *the* platform for providing unstructured data to SaaS and AI providers.

Finally, we are working to deliver the most advanced AI within Box with the Box AI Platform. The Box AI Platform is a critical abstraction layer that securely connects leading AI models to content in Box. Our secret sauce is a set of AI services that we've built out for developers and our Box first party apps, such as retrieval augmented generation, processing documents for vector embeddings, tool-use for AI agents to use within Box, model-agnostic AI management, and more.

Instead of enterprises maintaining many disparate back-end systems to bring AI to their content, the Box AI platform handles all of this for them, seamlessly, while respecting the inherent security and content access permissions within Box. Importantly, a core part of our platform is that we can quickly bring the power of any AI model to Box content – for instance, we already have GPT4-o working within Box Hubs internally just a week after its release.

In Q1, we announced a new integration with Microsoft Azure OpenAI, which brought together Box and Microsoft's enterprise-grade standards for security, privacy and compliance to AI. And, also in Q1, as part of Box's technology partnership with NVIDIA, with NVIDIA's newly launched NIM microservices, Box can more easily leverage with various AI models and capabilities within Box AI to improve how our customers can unleash the value of their unstructured content.

Now, switching gears to Go-to-Market, as we outlined in our March Financial Analyst Day, we are focused on leveraging our GTM engine to bring the full value of Box to all our customers. We continue to see the successful adoption of Enterprise Plus, our multi-product offering that brings the full value of the Box Intelligent Content Cloud to our customers. In Q1, Enterprise Plus continued to be well over 90% of our Suites sales in large deals, with Suites now comprising 85% of deals over \$100,000 in Q1. We saw solid Suites attach rates in large deals across all geographies.

Our Q1 customer expansions and new wins with Enterprise Plus include:

- A global pharmaceutical and medical device company who purchased Box with a six-figure Enterprise Plus deal for their core ECM platform. They will leverage Box for records management - moving off legacy technology to modernize their content strategy. This will allow them to centralize important records, HR, and customer service data in Box while also meeting GxP compliance for auditable records.
- And a leading broadcast company in Japan that signed an Enterprise Plus upsell to build a secure content platform to prevent unexpected information leaks and to prevent ransomware attacks with Shield.

To bring the full value of our platform to our customers, this year we have expanded our demand gen efforts, we are continuing our global AI Connect events and other CIO events, we are introducing all new offerings throughout this year to help our customers modernize their ECM environment within Box, and we are driving larger deals with customers and powering more workflows in partnership with key system integrators. For instance, in Q1, we saw a number of key wins with large customers across critical focus industries with the help and support of key partners.

We are at a major moment as an industry. With AI, the role of unstructured data in enterprises has exploded, and Box is at the center of this movement within the most important businesses and organizations in the world.

Of course, what drives our success is not only our strategy and platform, but the work our Boxers do globally. I'm proud that Box was recently recognized by Fortune magazine as #18 in the 100 Best Companies to work for in 2024, up from #27 a year ago.

Our mission at Box is to power how the world works together, and as a company we will look back on this as a defining period for how work was shaped for decades to come.

And with that, let me hand it off to Dylan.

Q1 Fiscal 2025 Financial Results; Q2 and Fiscal 2025 Guidance

Thanks Aaron. Good afternoon everyone, and thank you for joining us today.

Q1 was a strong quarter for Box as we once again delivered on our key financial priorities to drive long-term profitable growth; accelerating revenue growth in constant currency, expanding operating margins, and executing a disciplined capital allocation strategy to optimize shareholder returns.

In Q1 we delivered revenue of \$265 million, up 5% year-over-year, and 8% in constant currency. This was above the high end of our guidance, driven by strong bookings linearity.

We now have approximately 1,800 total customers paying us more than 100 thousand dollars annually. Our Q1 Suites attach rate in large deals was 85%, a new high watermark and up significantly from 69% a year ago. Suites customers now account for 56% of our revenue, a strong improvement from 47% in Q1 of last year. As Aaron mentioned, we're seeing strong demand for Box AI and our more advanced capabilities, which has been a key catalyst for this accelerating Suites adoption.

We ended Q1 with remaining performance obligations, or RPO, of \$1.2 billion, a 3% year-over-year increase, or 8% in constant currency. We expect to recognize roughly 60% of our RPO over the next 12 months.

Q1 billings of \$190 million were down 1% year-over-year, and up 5% year-over-year in constant currency. Q1 billings were in-line with our expectations when adjusting for an FX headwind that was 250 basis points higher than we had anticipated in our guidance.

Our net retention rate for Q1 was 101%, consistent with last quarter's result. Our annualized full churn rate remained strong and stable at 3%, demonstrating continued

product stickiness with our customers. We continue to anticipate exiting FY25 with a net retention rate at or slightly above this level.

Q1 gross margin came in at 80.2%, up 230 basis points year-over-year and above our guidance of roughly 79%, and represents the first time we've reported 80% gross margins. As we continue to realize the efficiencies of running our infrastructure fully in the public cloud, we expect to deliver additional gross margin expansion over time.

Q1 gross profit of \$212M was up 8% year-over-year, exceeding our revenue growth rate by 300 basis points.

In Q1 we delivered operating income of \$70M, up 23% year-over-year, once again demonstrating our commitment to generating leverage across the business. Q1 operating margin of 26.6% was up 380 basis points year-over-year, despite absorbing an FX headwind of roughly 150 basis points. Our disciplined approach to expense management is continuing to generate additional leverage in our operating model.

As a result, we delivered EPS of 39 cents in Q1, up 7 cents year-over-year and well above the high end of our guidance of 36 cents. This result includes a negative impact from FX of approximately 4 cents.

I'll now turn to our cash flow and balance sheet.

In Q1 we had exceptionally strong free cash flow generation of \$123 million, up 14% year-over-year. We generated cash flow from operations of \$131 million, a 5% increase from Q1 of last year.

Let's now turn to our Capital Allocation Strategy.

We ended the quarter with \$567 million in cash, cash equivalents, restricted cash, and short-term investments. In Q1 we repurchased approximately 1.4 million shares for approximately \$37 million dollars. As of April 30, 2024, we had approximately \$126

million of remaining buyback capacity under our current share repurchase plan. We remain committed to opportunistically returning capital to our shareholders through our ongoing stock repurchase program.

With that, let me now turn to our 2Q and full year guidance.

As a reminder, approximately one third of our revenue is generated outside of the US, with roughly 60% of our international revenue coming from Japan. Since we last provided guidance, the US Dollar has strengthened versus the Yen and the following guidance ***includes*** the expected impact of FX headwinds, assuming current exchange rates.

Additionally, we expect the non-cash, deferred tax expenses that we discussed last quarter to represent an impact of roughly 1 cent to GAAP and non-GAAP EPS in Q2, and 5 cents for the full year.

For the second quarter of fiscal 2025:

We expect Q2 revenue to be in the range of \$268 million to \$270 million, representing 3% year over year growth, or 6% growth on a constant currency basis.

We anticipate our Q2 billings growth rate to be in the low to mid-single digit range. This includes an expected headwind from FX of approximately 50 basis points.

We expect our Q2 gross margin to be roughly flat sequentially, representing a year-over-year improvement of more than 300 basis points.

We expect our Q2 non-GAAP operating margin to be approximately 27%, which includes an expected negative impact of approximately 200 basis points due to FX. This represents a 220 basis point improvement year-over-year, and a 420 basis point improvement in constant currency.

We expect our Q2 non-GAAP EPS to be in the range of 40 to 41 cents, a 12% year-over-year increase at the high end of this range, even as we absorb the non-cash

deferred tax expenses I mentioned earlier. Weighted-average diluted shares are expected to be approximately 148 million.

For the full fiscal year ending January 31st, 2025:

We anticipate revenue in the range of \$1.075 to \$1.08 billion, representing approximately 4% year-over-year growth, and 7% growth in constant currency, at the high end of this range. On a constant currency basis, this represents a \$3 million increase versus our prior guidance. This includes an expected headwind from FX of roughly 250 basis points, 80 basis points higher than our previous expectations, representing an incremental \$8 million dollar headwind.

We expect our FY25 billings growth rate to be in the low single digit range, as compared with our previous guidance of roughly in-line with revenue growth of approximately 4% on an as-reported basis. This change is driven by an incremental FX headwind which we now expect to have a negative impact of approximately 150 basis points to billings growth.

We expect our FY25 gross margin to be roughly 80%, representing a year-over-year improvement of 260 basis points.

We continue to expect our FY25 non-GAAP operating margin to be approximately 27 percent, representing a 230 basis point improvement year-over-year. We expect FX to have a negative impact on operating margin of roughly 160 basis points. This guidance is in-line with our previous guidance despite an expected incremental headwind from FX of approximately 50 basis points.

We are raising our EPS expectations for the full year due to our ability to generate additional leverage across the business, as well as an improvement in our expected below the line income and expenses. We now expect FY25 non-GAAP EPS to be in the range of \$1.54 to \$1.58, representing an 8% increase at the high end of this range versus \$1.46 in the prior year. This includes the 5 cent impact from deferred tax expenses that I noted previously, as well as an expected FX headwind of 15 cents,

which is 5 cents higher than our previous expectations. Weighted-average diluted shares are expected to be approximately 150 million.

We are embarking on an exciting new chapter as a company, driven by years of investment and innovation in building out our Intelligent Content Cloud. Our differentiated product capabilities will enable us to power AI-driven business processes around workflow automation and enterprise content. As we prepare for the upcoming launch of new plan offering later this year, we'll be fueling our go-to-market engine through the targeted growth initiatives that Aaron outlined. And with a disciplined financial strategy in place, we've built a strong foundation to deliver long-term profitable growth.

With that, Aaron and I will be happy to take your questions. Operator?