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(Amended in places for legibility and clarity)

<<Todd Weller, Managing Director, Stephens>>

Morning, everybody. I'm Todd Weller with Stephens. I lead the cybersecurity and infrastructure software research effort here. Pleasure today to have Commvault for the fireside discussion, VP of IR, Mike Melnyk. Mike, thanks for joining us.

<<Mike Melnyk, VP of IR, Commvault Systems>>

Thanks for having me.

<<Todd Weller, Managing Director, Stephens>>

Awesome. So, I thought it'd be good to start with a review of some of the key developments from last week. Why don't we talk about the CFO transition and kind of, what you'd like to share with investors related to that?

<<Mike Melnyk, VP of IR, Commvault Systems>>

As far as the CFO transition, Gary Merrill was with us for a number of years. He made a personal decision, a career choice to move on to another opportunity. We respect that and wish him the best of luck. From the Commvault perspective, he left us in a good place We had a strong quarter in Q2, beat [editor's note: guidance metrics], and we raised our full year guidance. We reiterated that guidance during the press release announcing his departure.

And Danielle Abrahamsen, who is our Chief Accounting Officer, who's been with Commvault about eight years, has stepped into the interim CFO role. [Editor's note: Ms. Abrahamsen's appointment as Interim Chief Financial Officer is effective December 1, 2026. Mr. Merrill remains Chief Financial Officer through November 30, 2026.] Many of you know Danielle. She's had investor facing roles. She's filled in an interim position before. She's worked very closely with Gary on both the finance and operations side of the business. So, it's a pretty seamless transition, and we're just going to business as usual, going to move forward from here. And we do have a search open with Spencer Stuart, but again, we feel very comfortable with Danielle in the interim CFO role.

<<Todd Weller, Managing Director, Stephens>>

Great. So, the other key event from last week was you had your SHIFT user conference here in Nashville. Major theme of that conference was how Commvault's extending data protection and cyber resilience to AI and the AI era agentic applications. So, from your perspective, what were the key themes and product announcements that you think are kind of most important for investors to focus on?

<<Mike Melnyk, VP of IR, Commvault Systems>>

We think AI, it changes the game of recovery and resilience. And the reason for that is, in the AI era, you see more data, more identities, more agents, more complexity, more vulnerabilities, more attacks. And so, the recovery of the past, the data protection of the past, doesn't work effectively in the AI era. AI demands more, more capabilities and continuous recovery. So, we talked about that theme at SHIFT consistently, which is a continuous discovery, detection, and response to any changes across your environment.

And so, when attacks or vulnerabilities or mistakes are happening at machine speed, you need to be able to audit and track in real time when those changes are happening and recover to that point in time. And so, some of the functionalities that we announced and the capabilities that we announced at SHIFT were specifically to address that continuous recovery process. For example, Recovery Studio was the thing that most analysts seemed to be most excited about.

Recovery Studio effectively automates the recovery process. It basically combines an orchestrated full-stack recovery of the data, the identity, your infrastructure, your orchestration, I'm sorry, your configuration layer in the proper order. And so, what it does is it combines a number of our offerings into one process. So, as opposed to having a manual backup where you have to find the admin, find the backup, identify the point of the breach, this automates that process and minimizes the time to recover, which is critical in the AI era.

<<Todd Weller, Managing Director, Stephens>>

Great. I want to take a step back in terms of framing the market. So, Commvault's been around a very long time, right?

<<Mike Melnyk, VP of IR, Commvault Systems>>

Yes.

<<Todd Weller, Managing Director, Stephens>>

[A] leader in data protection since inception. Data protection's well-established markets, went through lots of phases, right? On-prem to virtualized environments to cloud and SaaS, cyber resilience, and now we're in new phase of AI era. So, you got an on-prem business, you got a SaaS cloud. How do you frame the market in terms of kind of opportunity, growth rate?

<<Mike Melnyk, VP of IR, Commvault Systems>>

Well, we publish our TAM in our investor, in our quarterly earnings presentation, and we define it today as $24 billion, and projected to grow to about $40 billion over the next several years. That's comprised of the core data protection and replication market, which is call it $13

billion, $14 billion, and then the $11 billion of data and cloud security. So, when you put it all together, the way we define the TAM, it's a low double-digit CAGR from $24 billion to $40 billion.

Now, when you look at what some of our competitors put out in theirs, they include identity and access management, governance and compliance. Those are natural adjacencies that significantly expand the TAM. We haven't spoken to the size of those opportunities for Commvault yet, but I can point you to some of their projections. And those markets, again, are natural adjacencies for Commvault.

We think that, going to your point, Todd, about on-prem and cloud, our distinct competitive advantage is our ability to offer customers the data protection, identity, security, and recovery across cloud, on-prem, SaaS, more workloads and applications than any other vendor on a single pane of glass. And so, I think having that unified approach across any environment and the ability to scale to enterprise grade are key differentiators for Commvault.

<<Todd Weller, Managing Director, Stephens>>

And how do you think of the growth profile, the on-prem—traditional market?

<<Mike Melnyk, VP of IR, Commvault Systems>>

Again, using projections, the market is relatively mature, low-single digit growth. That being said, there's a significant, what we call legacy displacement opportunity. And you've seen it over the last several years. Some of the non-innovators, a handful of them have donated share to basically a handful of competitors, including Commvault.

What we see is that there's a $2 billion to $3 billion opportunity, we estimate, out of the $10 billion, that we call a jump ball over the next years. You typically see, according to IDC data, about 100 basis points to 200 basis points of share shift every year, and we gain our fair share of that jump ball.

<<Todd Weller, Managing Director, Stephens>>

Got it. Cyber resilience, that has been a theme for several years now, right? As this market shifted from your traditional, like, I got to recover because from an IT outage, to ransomware and other cyber threats, it has got to be cyber-driven.

Setting aside kind of AI, which I know is hard to do, what inning are we in with respect to cyber resilience driving modernization of data protection platforms?

<<Mike Melnyk, VP of IR, Commvault Systems>>

We still think it is the early innings. If we include AI, we are just getting into the batter's box. But from a resilience perspective, we are still in the early innings. What we have seen even before the AI era is, again, CISOs are more involved in the conversation than ever before. And for us and for the industry, we think it started, if you go back to our first SHIFT event four years ago, we kind of introduced that concept of cyber resilience, the bridging of data protection, data security. And then, there was the seminal, the CrowdStrike moment, right, of 2024. What you are seeing is the threat, again, threat environment continues to evolve.

And CISOs, data protection, security, and data resilience are now something that CISOs involved in almost every deal. It used to be an infrastructure decision. Now it is a critical board-level decision. And so, we continue to see, again, even before, if we put AI aside, we continue to see more and more capabilities being added on to your, quote-unquote, traditional recovery in order to ensure resilience. Because again, it is speed of recovery. It is not a matter of I can recover in a week or two weeks. Organizations want to recover now. And so, that time imperative is something that is a catalyst for the industry.

<<Todd Weller, Managing Director, Stephens>>

And we had a lot of conversations at SHIFT last week where a key theme was cyber resilience is still a very big driver. It feels like it has been there for a while and AI is crowding out a lot of things, right, in terms of focus.

<<Mike Melnyk, VP of IR, Commvault Systems>>

On that point, I will tell you, just even on our term software side, putting all our exciting SaaS offerings aside, we have our Cyber Recovery bundle on term software. We said that grew over 50% in the most recent quarter. That is multiples of what our core on-premise business is growing, right? So, customers are embracing, even in an on-premise environment, offerings that have additional cyber functionality. So, that is why I say resilience is still in the early innings.

<<Todd Weller, Managing Director, Stephens>>

Another driver I think is a bit overshadowed with the AI focus is protection of cloud workloads. Workloads in AWS or Azure or Google Cloud. And look, cloud and SaaS is a well-established trend too. So where are we with respect to that opportunity in terms of penetration, and what are the drivers for that continued growth?

<<Mike Melnyk, VP of IR, Commvault Systems>>

That is very early days. There is data out there that suggests about a third, 30% of cloud workloads are protected by a third-party or unprotected. So, there is a lot of greenfield opportunity in the SaaS space. We are seeing that in our business. We are seeing very strong growth in Clumio. Number two, we are seeing, we talked about our cloud-centric workloads, which include Clumio, but they grew over 50% in this most recent quarter. We are now over 10,000 SaaS customers. I mean, six years ago, we were zero.

So, there is a huge green space opportunity, and we have a lot of momentum. Again, I point to the breadth and depth of our coverage, more workloads than any other vendor. That is where we are winning in the SaaS marketplace. The other thing where we see momentum is with the hyperscalers themselves. We are on all the marketplaces, and that is one of our fastest-growing channels, because we basically have eased the friction of procurement and enablement by allowing the customer to purchase Commvault directly on the marketplace.

So, meeting the customer where they are has been very important for us, and we are very excited about the momentum we are seeing in that channel. Cloud, when we look at our business today, if I look at subscription ARR, it is 40% cloud and 60% on-prem. Every incremental dollar of business, every new dollar is 60% SaaS, 40% on-prem. Clearly, cloud is the growth driver for Commvault.

<<Todd Weller, Managing Director, Stephens>>

And why do you think there is only a third of workloads protected on cloud? Is it that customers are using native capabilities, or maybe some customers think they do not need to protect the data?

<<Mike Melnyk, VP of IR, Commvault Systems>>

I think it is both. Not all data is protected, but the native capability is the kind of the default easy button, if you will. What large enterprises find is at a certain scale, especially when they are multi-cloud. 80% of organizations are multi-cloud. It goes back to what we said earlier in the conversation. Organizations want a single pane of glass so they can isolate the point of recovery and be able to recover to that exact point. When you are using multiple interfaces, it creates a lot of friction in both the time and cost of recovery, and that is where you see customers move to Commvault.

<<Todd Weller, Managing Director, Stephens>>

And you said a lot of the new customers, new subscription customers you add come like a cloud and SaaS. What's the profile of that customer relative to your traditional large enterprise that has this complex environment?

<<Mike Melnyk, VP of IR, Commvault Systems>>

The sales cycle is obviously shorter with SaaS. You can see in-period type of deal cycles, whereas your typical large on-premise deal, the deal cycle can be six months to upwards of a year. You tend to see a lot more velocity on the SaaS side. That being said, the initial land is smaller than a term software transaction, but the lifetime value is significant. If you just use simple math of our number of customers, we said over 10,000 or $450 million of SaaS ARR, you're looking at a $45,000 average ARPA for a SaaS customer.

When those customers have, say, three offerings or more, you're into the six figures. It's lifetime value. The more offerings they have, the stickier they become. That is why we are so encouraged about the momentum we saw last quarter around new business. We believe we have a durable compounding growth model, that is going to be driven by cross-sell and lifetime value.

<<Todd Weller, Managing Director, Stephens>>

Are they more cloud-native customers that are in that class?

<<Mike Melnyk, VP of IR, Commvault Systems>>

It is both. I would say that if you look in this most recent quarter, pretty consistently, about a third of our customers use both Commvault software and SaaS. It is both. That is the ideal customer, where you capture them on-prem and in the cloud. Again, ultimate of stickiness.

<<Todd Weller, Managing Director, Stephens>>

I want to turn to AI. When we think about AI tailwinds for this space and Commvault, we tend to think about data growth, new AI agentic apps and workloads that are going to need to be backed up and recovered. Obviously, a lot of announcements at SHIFT kind of focused on that. But where are we today in terms of AI tailwinds actually having an impact on kind of the data protection business? And when do you expect that to become kind of more meaningful driver?

<<Mike Melnyk, VP of IR, Commvault Systems>>

I'd say today, we're seeing it indirectly. When I say indirectly, we're seeing customers back up more data more often and adding capabilities above and beyond the traditional backup. So, it's indirect. We don't have a reportable AI line item. We're also seeing it on our Clumio business. In our Q4, we had a very, very strong Clumio quarter, as we called out. We saw a couple global customers provisioning data sets for AI workloads, and that contributed to that quarter.

Now, as we roll forward, we did announce some capabilities at SHIFT that will be more discrete, like AgentRecover, which is discovery, auditing, and recovery of AI agents and all the affected resources. Not just recovering the agent itself, but what other applications or data sets did the agent touch? And you roll back to that point in time of any affected workload.

Number two, we announced partnerships with Zscaler, NVIDIA, Databricks for AI security, but also for, if you think about Data Activate, which is getting your data sets ready for AI use cases. As we were preparing for SHIFT, we did a lot of research, and there's this statistic that showed that 70% of AI leaders said that more than half of their unstructured data is unusable for AI. I go to the Black Hat conference last quarter, one of the themes that came out was the number one thing to prepare for AI is to understand your data estate. That goes to what I just said. You have to get your data in order without sacrificing governance and compliance type of capabilities in order to have that ready for AI use cases. And that's what some of these partnerships are intended to enable going forward.

<<Todd Weller, Managing Director, Stephens>>

I want to drill down a little bit on the SaaS business for Commvault, because that's a key growth area, key growth driver. One of the questions we get from investors is, well, SaaS ARR growth continues to be strong. It's been decelerating, and net new ARR growth this year is kind of up slightly from last year in kind of dollars. How do we think about the durability of SaaS ARR growth, and what would have to happen for net new ARR there to accelerate?

<<Mike Melnyk, VP of IR, Commvault Systems>>

We think it is very durable. Again, I go back to the greenfield opportunity with, again, approximately a third of workloads in the cloud protected by a third-party. We believe that that will be higher over time. We are not going to put a number on it. There is customer acquisition, that is number one. Number two is the net dollar retention. As currently, we do not break out SaaS anymore. We talk about subscription net dollar retention as a whole. But we believe that there is still a significant cross-sell opportunity.

If we look at our base, over half of SaaS customers use more than one offering. A year ago, that was mid-40%. Two years ago, it was mid-30%, mid to high 30%. So, we are taking good chunks out of that base. We think we will continue to drive that higher. Average solutions per customer still sit somewhere around two. If you look at best-in-class SaaS platforms, there are four, five, six average offerings per customer.

Some of the tool sets we put together, like Recovery Studio, I call it suggestive bundling, not forced bundling. We are basically helping the customer understand that you can buy products a la carte, but certain of our products are designed to work together. This cross-sell motion is newer for Commvault. We are probably in the second year, maybe year three, early year three. So, I still think there is a lot of potential. We still think there is a lot of potential on cross-sell, and that is going to contribute to durability of the model.

<<Todd Weller, Managing Director, Stephens>>

Then maybe just a little bit more detail, like we are trying to get smarter all the time on the composition of the drivers within the SaaS ARR and the net new ARR growth. We think of a couple different dimensions, right? You are bringing new logos, we kind of hit on that. You are expanding with your existing customers, but then you have these different workloads and applications. For example, the cloud workload protection angle we talked about.

Then you get a new SaaS customer, and they expand their data volumes and their coverage. You have your existing on-prem customers that are adding these incremental SaaS capabilities. So, maybe most of their backup is still on-prem. They are acquiring, consuming SaaS capabilities. So, how do you kind of force rank, like what has been the biggest contributors to kind of SaaS ARR growth, and how do you see that playing out kind of in next few years?

<<Mike Melnyk, VP of IR, Commvault Systems>>

For us, it has been new customer acquisition has been the primary. Again, go back to what I said a couple questions ago, only 30% of customers use both Commvault software and SaaS. But that has been consistent as we have grown our subscription customer base. So, the good news is we are seeing nice absolute growth in those number of customers. So, there is still a long runway for penetration of the existing base.

So, for us, if I rank ordered them, particularly on the SaaS side, it has been new customer acquisition, and then it has been number two is the growth in a number of customers using both software and SaaS, so harvesting our install base, and third, multi-product adoption. Now, rolling forward, what is going to be the most is we are going to continue to acquire new customers, but we think there is the most potential in that cross-sell motion.

<<Todd Weller, Managing Director, Stephens>>

Got it. It seems, like, complex hybrid is here to stay, right?

<<Mike Melnyk, VP of IR, Commvault Systems>>

Absolutely.

<<Todd Weller, Managing Director, Stephens>>

There's no reason to force customers--to a SaaS offering?

<<Mike Melnyk, VP of IR, Commvault Systems>>

No.

<<Todd Weller, Managing Director, Stephens>>

Because, with AI, there's been--It feels like more data going--Into on-prem--Environment. Data sovereignty. Sovereignty is big. How big has sovereignty been a driver for the business?

<<Mike Melnyk, VP of IR, Commvault Systems>>

I can't quantify that for you off the top of my head, but it is definitely something where we've announced functionality around data sovereignty initiatives, particularly over in the EU. I can't put a number on it, but it is an opportunity for us.

<<Todd Weller, Managing Director, Stephens>>

Got it. And then maybe a little bit on competitive dynamics. What are you seeing kind of in, you mentioned kind of legacy displacement.

There's continued runway there. Where's the biggest opportunity, or is it consistent, and just kind of an update on what you're seeing in general?

<<Mike Melnyk, VP of IR, Commvault Systems>>

On premise, it still continues to be the fact that the cyber resilience decision, particularly in the AI era, has now become a CISO and board level priority, and they are looking at their legacy vendors and deciding, is that solution adequate when time to recovery is mission critical? I think that more often than not, they're finding that the answer is no. That's what leads them to explore offerings and companies like Commvault. So again, I go back to we believe there's a $2 billion-$3 billion displacement opportunity in that $10 billion market, and we're going to continue to go after our fair share.

<<Todd Weller, Managing Director, Stephens>>

It would seem with all the increased awareness around AI-driven threats, right, that that could be another catalyst to drive, for those folks that haven't modernized yet--That they should be looking at this and going, we should be looking to get on a modern platform?

<<Mike Melnyk, VP of IR, Commvault Systems>>

And to your point on AI, there is another statistic we had as we were preparing for SHIFT, where less than 10% of organizations have updated for what is called AI resilience. What you are finding is that, or less than 10% have actually tested for a clean recovery, meaning like leveraging, say, a clean, validated recovery. There is a lot of DNA of, I have a backup. It is there. When I need it, I will get it. That mindset is changing now, and that was a big theme of SHIFT, is that you cannot rely on it is like hoping that you have the fire extinguisher in your kitchen.

<<Todd Weller, Managing Director, Stephens>>

Sure.

<<Mike Melnyk, VP of IR, Commvault Systems>>

That it actually works and you know how to use it. Just having it [a fire extinguisher] is not going to put out the fire. You have to know that it actually is up to date, that it is going to work, and you know how to use it. That is kind of the mindset shift that is happening, particularly in the AI era.

<<Todd Weller, Managing Director, Stephens>>

Last quarter, one of the factors you attributed the strength to was go-to-market execution and kind of improvements there. Give us some more specifics, like what. There has been investment in sales and marketing. The go-to-market, but what have been the big changes that are driving kind of the improved execution?

<<Mike Melnyk, VP of IR, Commvault Systems>>

The last two years, we did make significant investments in sales and marketing, and those were internal, number one. They were channel-directed, and they were also from a branding

and marketing perspective. I think we made improvements across all three. Where we're seeing the improvements in sales execution, which has driven the productivity increases, really is around, I think, the messaging around cyber resilience.

When we first introduced this four years ago, again, I go back to our first SHIFT, it was a new concept, and that takes time for the sales force to learn, for the channel, and for customers to learn. I think we've leaned into that, number one. We've also been very, one of the things that Gary did do with the organization is we kind of segmented and focused the sales force. We had a velocity SaaS motion, we have a renewal and expansion motion, have a customer support motion.

All those things that we've done over the last four years are starting to bear fruit. One of the things I learned coming from your side of the table to the organizational side of the table is, on paper, things seem like a great idea that they can work instantly, but that's not how things work in an organization. It does take time. I think we're starting to see the bear the fruits of those investments.

Also, what we're doing again with Unity, with a platform that we introduced last year at SHIFT, with some of the bundles and this Recovery Studio that we introduced this year at SHIFT, by being in the marketplaces, we're easing the friction of the cross-sell motion and making it easier for our sales force and channel and customers to embrace Commvault solutions.

<<Todd Weller, Managing Director, Stephens>>

Got it. Got about 10 minutes left. Any questions from anybody?

<<Analyst>>

On the CFO search, given you went through this a year ago, should we expect this to be a quicker process?

<<Mike Melnyk, VP of IR, Commvault Systems>>

I don't want to put a timeframe on it. I think the criteria will be the same. We're looking for someone perhaps with public company CFO experience, ideally familiar with a subscription and SaaS-based recurring revenue model, perhaps with technology DNA. The board is taking

this. It's a great opportunity to take a fresh look, and we will take our time to get the right candidate.

<<Analyst>>

From a competitive perspective, are most of the competitors addressing AI and AI risks in a similar way, or are there variants to how each are going?

<<Mike Melnyk, VP of IR, Commvault Systems>>

We believe that. Look, we've always considered ourselves to be an innovation leader, and I think what we demonstrated or what we showcased at SHIFT, and I would encourage you to watch the virtual replay, would support that. I mean, I don't want to speak to the competitors' capabilities. Again, I do see, and I know from talking to our product leaders that we tend to. When we win, we win on innovation. No, we don't compete on price. We compete on our portfolio capabilities. So again, can't speak to the competitors. I mean, I can, but I won't. But we believe we're best positioned on the innovation front.

<<Analyst>>

Is some of the consolidation that's happening between private players creating opportunity because they're focused maybe on integrating versus actually accelerating? Are you seeing win rates tick up or anything like that against those?

<<Mike Melnyk, VP of IR, Commvault Systems>>

I'm not going to speak directly to win rates, but to your point on consolidation and integration, generally speaking, that creates opportunities, and we're aware of those and focused on those. We'll continue to take our fair share of the market.

<<Analyst>>

Have you seen any. Can you look back to the last couple of quarters and said, hey, this quarter was probably a little better than it would have been if that wasn't happening? Or is it too recent for those to kind of flow into the pipeline and get through that process for any disruption to fall out into better results for you guys?

<<Mike Melnyk, VP of IR, Commvault Systems>>

In terms of, again, the integration type of disruption, that's been going on for a while. I don't want to say there's any material change in competitive dynamics. I think the material change is, again, more from the buyer persona perspective, with the CISO and CIO and board involved in these decisions. Our CEO, Sanjay, says all the time, Cheap does not make resilient. I think that there is an awareness amongst these new buyers that we need the best solution available. Again, that's where Commvault wins.

<<Analyst>>

When did that kind of change?

<<Mike Melnyk, VP of IR, Commvault Systems>>

I continually point back to four years ago, at our first SHIFT event, where we introduced this concept of resilience. The specific goal of that event was to create this ideology or bridge the mindset of data security and protection and to elevate our specific selling motion to the CISO. That took time. But I will say that we were over 1,000 attendees at our most recent SHIFT conference. Four years ago, we were somewhere. We were 100 to 200. So, we've seen exponential growth in the number of IT leaders, and I'm saying IT leaders, CISOs, CIOs, that are attending our conferences and having conversations with us.

<<Todd Weller, Managing Director, Stephens>>

Could you talk on the term business? Another thing we spend a lot of time thinking about is just the durability of growth there. Maybe talk about the trajectory of what you've seen over the last kind of three or four quarters with net new ARR there.

<<Mike Melnyk, VP of IR, Commvault Systems>>

Sure. If you look back, Q4 of ‘26 and Q1 of ‘27, we were on a constant currency basis, like $15 million to $16 million of net new. Our run rate prior to that was kind of 20-ish. We believe there was some impact from the hardware environment. This past Q2, we ticked back up to $21 million in net new. Again, that was bolstered by strong new business wins.

Now, we also think there was some normalization of kind of this, an acceptance of the new normal of what hardware prices. A less shock and awe, and more business as usual in the most recent quarter. So, the back half of the year, I know it kind of has us doing similar pace, low 20 on a term business, similar to our run rate prior.

Again, from a durable growth perspective, if you assume that $150 million to $200 million of business comes up every year, something like that, from competitive displacement, we get our fair share of that. Plus, remember, the majority of our business is from existing customers, with visibility on the renewal pool. So, when we look into the back half of the year, we're not factoring in an easing of the hardware environment or elevated new customer growth. We're factoring in kind of normal renewal rates on our existing business.

<<Todd Weller, Managing Director, Stephens>>

From the storage hardware dynamic, look, there's a lot of things that could be happening, right? And there's both directions, right? Like, you could see some customers saying, we're deferring projects because the storage hardware cost is just too high. You could see other customers saying, there's no end in sight to this, so we're going to pull forward and do this before things get worse. But what have you seen? And like, how internally has Commvault managed through that?

<<Mike Melnyk, VP of IR, Commvault Systems>>

That's a great question. The good news is, again, I'll go back to our ecosystem. We've got the broadest ecosystem of storage partners. We're agnostic to where you store, what type of hardware you use, what your storage target is. We give the customers a lot of choice and flexibility there. That's number one. Number two is we can also point them to cloud and SaaS solutions if the hardware is unavailable.

Generally speaking, customers aren't making decisions on-prem and cloud in isolation. They're holistic decisions. You're able to kind of pivot the conversation if needed to, okay, well, why don't you prioritize these cloud workloads right now, and we can revisit the hardware piece, the on-premise piece. That's the beauty of our model, again, is we give the customer the ultimate choice and flexibility, and we can provide them software or SaaS. That's how we're managing it.

<<Todd Weller, Managing Director, Stephens>>

And how common is it for a customer to say, I need to upgrade my backup software, my data protection software, because I need the cyber resilience capabilities. I need a more modern platform. But while I normally do it with a hardware refresh, with Commvault, I can sweat my existing assets because I can leverage existing hardware. How common is that?

<<Mike Melnyk, VP of IR, Commvault Systems>>

I'd say from a competitive displacement, those usually happen at the time of a hardware refresh. But to your point, yeah, customers, from our perspective of retention, yeah, customers can certainly sweat the asset. We make it easier for them to do that because of parts of our three-tier architecture, right, where we separate the data plane, the storage plane, and the control plane. We'll help them to optimize that TCO and work with them as a partner until they're ready to commit to the next hardware cycle.

<<Todd Weller, Managing Director, Stephens>>

Got it. Close out with a question on profitability. This year, kind of margin. Prior to this year, you had two years of higher investment, right?

<<Mike Melnyk, VP of IR, Commvault Systems>>

Yes.

<<Todd Weller, Managing Director, Stephens>>

Margins kind of came back a bit or were flattish. Margin expansion has returned this year. That's a part, a component of the story.

Just how do we think about the trajectory at a high level kind of going forward?

<<Mike Melnyk, VP of IR, Commvault Systems>>

If we isolate FY ‘25 and ‘26, which we said were investment years, we managed kind of margins flattish when we made significant investments in sales and marketing. We are at a more normalized sales and marketing level now, which means we are still investing in growth opportunities, but OpEx growing less than revenue. And that was the case prior to FY ‘25 and ‘26. When I started, we were, I believe, at a 9% non-GAAP EBIT margin, drove it all the way into the 20s, stayed flattish for a while, and this year we are expanding again.

The key, I would point out too, Todd, is we absorbed a couple hundred basis points of gross margin degradation as we ramped SaaS. That is a good problem because SaaS inherently has a different margin structure. As we have ramped that SaaS business and normalized that at 70% margins, we have absorbed that initial step-down and kept the margins flat to up. So, I think you will see us continue on this kind of responsible growth model that we have embraced over the last several years.

<<Todd Weller, Managing Director, Stephens>>

Great. With that, thank you.

<<Mike Melnyk, VP of IR, Commvault Systems>>

Sure. Thanks for having us. Appreciate it.