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Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Enfusion's Third Quarter 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I'd now like to turn the call over to Bill Wright, Head of Investor Relations, to begin.

Bill Wright

Managing Director

Good morning, and thank you, operator. We welcome you to Enfusion's third quarter 2024 earnings conference call. Hosting today's call are Oleg Movchan, Enfusion's Chief Executive Officer; Brad Herring, Enfusion's Chief Financial Officer; and Neal Pawar, Enfusion's Chief Operating Officer. Please note, our quarterly shareholder letter, which includes our quarterly financial results, has been posted to our Investor Relations website.

I would like to remind you that today's call may contain forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including those set forth in our filings with the SEC, which are available in the Investor Relations section of our website. Actual results may differ materially from any forward-looking statements we make today. These forward-looking statements speak only as of today and the company does not assume any obligation or intent to update them following today's call, except as required by law.

In addition, today's call may include non-GAAP measures. These measures should be considered as a supplement to and not a substitute for GAAP financial measures. Reconciliation to the nearest GAAP measures can be found in today's quarterly shareholder letter, which is available on the company's website.

And now I would like to turn the call over to Oleg to begin.

Oleg Movchan

CEO & Director

Good morning, and thank you for joining us today to discuss our results for the third quarter of 2024. This quarter was about execution of our long-term strategy. We are pleased to see that our initiatives over the past several quarters are aligning and starting to add up. Throughout the year, we have been delivering new products that allow us to attract and retain larger up-market clients in line with our strategy to expand into higher value market segments. We will discuss some of these product developments and subsequent wins or proof points on our call today.

As you can see from our third quarter 2024 earnings release published earlier this morning, we reported a strong quarter with 15% top-line growth and narrowed our 2024 full year guidance, which Brad will discuss later. We also remain on track to deliver on our medium-term guidance of 20% to 22% revenue growth rate over the 2025-2027 period. Our confidence in achieving our mid-term guidance is based on our ability to win new business by broadening our product offering to capture up-market opportunities, while further expanding our geographic footprint.

I believe we can accomplish this because we are already doing it as our investments in platform capabilities result in broad product adoption. We are capturing new business today that was previously out of reach due to our expanded product suite and global reach. Our more than 1,100 employees are constantly striving to deliver the last upgrade our clients will ever need.

Now let me walk you through some key financial highlights from the third quarter. We delivered \$51.2 million in revenue in Q3 2024, representing 15% year-over-year growth. Third quarter adjusted EBITDA totaled \$11.1 million, translating to a healthy adjusted EBITDA margin of 21.8%. Brad will provide a deeper dive on financials later. We signed 38 new clients in Q3 2024, up from the 37 signed in Q3 2023. This brings our total client count to 894, another firm record.

The strong U.S. launch market we highlighted in the first half of the year continued into Q3. We captured 8 new launches, totaling 31 year-to-date in the Americas, which puts us on track for our best year since 2021, which had 35 new launches. Fund launch wins tend to originate from portfolio managers that have a strong loyalty to Enfusion brand from their previous firms.

From a customer count standpoint, in Q3, launches represent 53% of new clients versus 47% for conversions. However, from a booking standpoint, launches represent 38%, while conversions represent 62% of bookings as conversions are typically much larger

accounts. Overall ACV for the firm rose to \$229,000 in Q3, which is another firm record and represents 5.7% year-over-year growth. Several of our new account wins this quarter are a direct result of our expanded product shelf and continued client adoption.

As you have heard me saying many times, our new product rollout this year, including our Portfolio Workbench tool, have been central to our strategy in expanding up-market, leading to larger and more profitable relationships with more stable revenue profiles. The second release of our Portfolio Workbench tool in Q2 included additional enhancements that expanded our serviceable TAM and allowed us to win accounts in the third quarter that were previously out of reach. We're very excited to see this effort materialize. Importantly, as we roll out premium features that enhance our offering in portfolio construction, we expect to see revenue expansion in both the front and back book.

Allow me to provide you with a few notable client wins across geographies from this quarter. In the Americas, revenue grew 17% year-over-year, up significantly from 10% last year and up from 15% last quarter. The following wins illustrate how the product investment has been unlocking new clients for Enfusion. Credit fund formations have remained strong this year and we continue expanding our market share in this segment.

I'm thrilled to announce that Enfusion signed Agile Investment Management. Agile Investment Management is a Florida-based institutional asset management fixed income firm with about \$650 million in assets under management and assets under administration. The Agile Investment process combines top-down and bottom-up analysis with the team's commitment to comprehensive risk management and identifying opportunities to generate attractive income streams. The Agile team maintains the constant focus on the risk management that has defined in Genesis signature style for almost 40 years.

When Agile was appointed sub-adviser to the iA Clarington Core Plus Bond Fund, they needed to ensure that they had a technology partner that was able to drive operational efficiencies across the front office, while operating on a modern platform that could scale with them into the future. They chose Enfusion. Agile will utilize Enfusion's OEMS broadly, including Portfolio Workbench for cash flow rebalancing, pre-trade compliance, cash letter reporting and managed services offering. This is a very exciting win as we continue to grow our momentum in the institutional asset management space.

Another notable win up-market this quarter, which I am pleased to share, demonstrates our continued expansion in the institutional asset manager space. Frontier Global Partners is among the latest to partner with Enfusion and enhance their investment trading and operations. Frontier strategies invest not only in Frontier markets, but also global, international and international small-cap equity markets, and it was imperative that they partner with a firm that has a security coverage.

Frontier was an opportunity we nearly lost 2 years ago, but we stayed in contact with them periodically. Then recently, unhappy with their existing provider, they came back to us realizing their business needs lined up with Enfusion build of our Portfolio Workbench, which allows dynamic portfolio rebalancing workflows, coupled with a robust compliance engine. The compliance engine provides transparency into the data, which their legacy provider could not support. This is a very exciting win with a prestigious and well-known asset manager in the institutional asset management space. As we've stated throughout the year, we have made a concerted effort to win more institutional asset management, and I'm pleased with the team's effort, execution, and most importantly, results.

Turning towards EMEA. Revenue grew 22% year-over-year in Q3 2024, down modestly from the last quarter as we saw an unusually high amount of involuntary churn at the end of Q2 and beginning of Q3. These closures impacted the growth trajectory for the quarter, but Q3 was also the best quarterly bookings in EMEA in our history. Signing several large new asset managers is a positive leading indicator for future growth.

As a reminder, Europe has a diverse mix of financial institutions and Scandinavia continues to be a growth region for us. We won another account in Norway this quarter with Fearnley Asset Management. This is a newly formed asset management arm of Astrup Fearnley AS and will be trading long/short equity and credit. The Astrup Fearnley Group represents over a century of history, growth and excellence in the areas of shipping and offshore services. Enfusion's presence continues to expand within the Norwegian asset management industry.

As mentioned in our Q2 call, we have been focused on the Middle East and specifically Dubai. As a result of these efforts, I'm happy to share that we closed another account in Dubai. We are pleased to announce that Magellan Capital, a prolific several hundred million dollar multi-strategy launch in Dubai, has selected Enfusion to support their complex asset classes and the workflow requirements. This win is a further testament to the Enfusion's success and continued growth presence in Middle East.

Lastly, with our London space, we are proud to announce that TT International, an alpha-driven specialist investment manager, has selected Enfusion as their strategic partner for PMS, OEMS, accounting and portfolio construction and rebalancing. Following a thorough market evaluation, their decision to replace multiple existing systems with our front-to-back solution underscore their

confidence in our platform. The partnership is set to boost operational efficiency, streamline workflows and enhance straight-through processing.

Turning to Asia Pacific. Revenue grew 6% year-over-year, moderating from 10% year-over-year growth last quarter. As you may recall, we have highlighted the capital outflows and geopolitical trends in APAC for the past few quarters. And given those macro headwinds, we're pleased with these results. We continue to sustain healthy growth through the market share gains among traditional and hybrid asset managers as we weather the macro conditions that are impacting hedge fund market.

The following client win is a good representation of how we continue to diversify our business. Guosen is among the latest institutional asset managers to partner with Enfusion and enhance their investment management operations. Guosen is a Chinese financial services company with services from sell-side, sales and trading, research, investment banking to buy-side, asset management and private equity investments.

Enfusion was selected as the primary technology and services provider to help them grow and scale their asset management division. The advantage they see from Enfusion is our all-in-one design to help seamlessly connect their front office trading and operation teams and it allows them to replace 2 of their incumbent systems, including their order management system and accounting system, which will optimize their total cost of ownership.

Another key win this quarter and proof point demonstrating our continued market leadership position in Hong Kong was a \$500 million AUM long/short equity manager with offices in China and Hong Kong. It is among the latest investment managers to partner with Enfusion to enhance their investment operations. Enfusion has been selected as the primary technology and services provider to help them grow and scale their investment business. They chose Enfusion due to the functionality of our EMS feature within the mobile app and also pre-trade compliance checks, helping ensure they're always trading within their compliance and regulation.

At this time, I'd like to have Neal Pawar, our COO, to make a few comments on product and services.

Neal Pawar
Chief Operating Officer

Thank you, Oleg. This month marks my first full year at Enfusion. Over the past year, a major area of focus for us has been to add capacity to our product and engineering teams so that we can increase the velocity of adding new capabilities for our clients. This is key so that we have more tools to unlock new client opportunities, helping our front book as well as capabilities to offer our existing clients, helping grow our back book.

This past quarter, we have added several product enhancements for the Portfolio Workbench, including most recently, native rebalancing of fixed income portfolios. A great advantage of our weekly release cadence is that we are routinely pushing out new features to clients, something that is extremely helpful, especially when developing a new product like the Portfolio Workbench. We can also report a strong rate of mobile adoption for the Workbench, which is a good reminder that portfolio managers are increasingly looking for ways to manage their portfolios, while they're on the road.

As you heard from Oleg, the Workbench continues to play a part in Enfusion landing several new asset management clients this quarter, for whom some of the Workbench capabilities were table stakes. The addition of these customers is a nice proof point of how the Workbench is helping us grow our front book and is expanding our serviceable TAM.

We have also delivered the first in a series of upgrades to our managed services offering. As we've mentioned previously, our managed services provides our clients a dedicated team that operates as an extension of the client's organization, providing accounting and operational support for the clients' shadow accounts. This quarter, we beta-released a highly visual and intuitive set of dashboards for managed services clients to better track and measure their teams work product.

This release went out to a subset of our managed services clients and is the first significant technical enhancement we've made to this service since it was first launched. It is by no means the last. We are adding a number of new features to our managed services platform in the coming months. We are very focused on improving both the client and operations user experience, while also increasing productivity and hence margins for the managed services business. These enhancements will also give us new product capabilities for us to upsell to clients who do not leverage our managed services today.

We have also released a complete reboot to our online documentation, a system we call Violet. We have over 75 clients in the beta release of Violet and the feedback loop this has generated is helping prioritize what we will cover next. Having all of our documentation in Violet has given us the opportunity to leverage AI so clients and employees can ask questions through the search

and get answers along with links to source documents, to solve the problems. Violet is broadly regarded as a huge upgrade over our previous documentation, and we will be closing the beta and rolling it out to all clients in Q4.

Over the past year, you've also heard about some of the talent we've brought into the firm. We have added several senior hires to the product team, investing in key areas, including compliance, OEMS, data, user experience and analytics. Of course, product works in lockstep with our engineering team, where we've also been investing more capacity. We recently announced the appointment of Arman Artuc to Head of Engineering. Arman will oversee the continued scaling of our engineering teams as they work on delivering our product road map.

Arman comes to us from Instinet, where he served as Managing Director, Global Head of Liquidity Technologies, leading the development of low-latency algorithmic trading systems. Arman's arrival is at a perfect time as we have grown our engineering organization by 40 people year-to-date. Overall, we are pleased with the new velocity that we're gaining in our product and engineering throughput. And as you can see, we're putting it to good use. We remain committed to continuing to enhance our platform so we can provide our clients with the last upgrade they will ever need.

And with that, let me turn it back over to Oleg.

Oleg Movchan
CEO & Director

Thank you, Neal. As for market dynamics, the strong U.S. launch market has continued and we're on track to have our highest U.S. launch win count since 2021. As you may expect, the Americas is our largest region and generated a 200 basis point sequential improvement, which we see as a big contributor. I'm excited to share that our EMEA sales team recorded its highest ever new client quarterly bookings in the third quarter with an average deal size in EMEA at 2x the average deal size from as recently as the first quarter of 2023.

Looking beyond our core markets of the U.S., U.K. and Hong Kong, we continue to generate healthy geographic expansion. In particular, 32% of our new clients added in the third quarter came from outside of these core markets, well above our previous average of 19% since Q1 2021. From a product standpoint, we saw 84% of new clients choosing to include our OEMS, the highest quarterly average since Q4 '21 and well above our historic average of 75%. Hence, new accounts are growing in size on the front office side, which improves unit economics and quality and growth of the front book.

As our growth momentum in the Middle East continues to be strong, as reflected in our recent wins, we have been evaluating an expansion of our corporate footprint in Dubai. We view the region as strategically important for Enfusion as we follow the flows of talent and capital. Additionally, our team continues to work on designing our product road map to capture the private credit TAM segment. We view credit instrument data as the main pain point for the market participants and we'll build our new product road map in private markets around an integrated data strategy and related workflows.

In conclusion, everything we have been doing the past several quarters is aligning and adding up. As you just heard from Neal, we're executing on our product road map and up-market strategy, which we laid out at our Investor Day early this year. Our successful execution is reflected by increased ACVs, revenue growth and expansion of our footprint in the institutional market segment, as evidenced by our marquee client wins. The products we've rolled out in 2024 have been well received by existing clients and have positioned our sales team to bring in new up-market clients. The key new multi-billion-dollar clients we won this quarter, such as TT International, were previously out of reach and now serve as proof points of Enfusion product adoption, and hence, our growth in the institutional asset management segment.

And now I will turn the call over to Brad to discuss our financials.

Bradley Herring
Chief Financial Officer

Thanks, Oleg, and thank you everyone for joining us this morning.

For the third quarter, we generated revenue of \$51.2 million, an increase of 15% over the same quarter last year. Referring to the same descriptors we used in our discussions at Investor Day and on previous calls, our 15% growth for the quarter consisted of 14% from the front book and 1% from the back book. Our front book continues to show strength as our value proposition continues to resonate across our growing TAM segments. Specifically, our year-to-date bookings are running 16% over where they were at the same time last year and continue to represent a good mix of new launches and conversions off of our competitors.

Additionally, we continue to see our product initiatives, such as Portfolio Workbench, bearing fruit and allowing us to win accounts that previously passed on Enfusion as a provider. The back book contributed 1% growth in Q3 on a year-over-year basis. Moderation in the back book is coming from 2 primary sources. First, in Asia, we are seeing a lower net between upsells and downgrades, which we refer to as our net organic growth, which shouldn't be a surprise given the recent geopolitical headwinds.

We are also seeing general softness in organic growth amongst our domestic hedge fund clients. The feedback we have heard is that our clients have put extra scrutiny on their OpEx spend ahead of the uncertainty with the upcoming election. Despite recent slowdowns, we continue to expect that back book growth will contribute 3% to 5% of our overall growth going forward, just as I communicated at our Investor Day earlier this year. Going forward, we believe this temporary softness in our back book will be more than offset by the upcoming product deployments Neal spoke of as well as accelerated pricing actions across our customer base.

Third quarter ARR was \$202.7 million, up 14% year-over-year and 4% higher than what we reported in Q2. We're proud to say that this represents the first time our ARR has crossed the \$200 million mark. Our NDR for the quarter was 102%, which is down 1 percentage point from the previous quarter. Consistent with the discussion on revenues for the quarter, NDR was negatively impacted by the lower growth from the back book as well as by consolidation of 2 large broker-dealer customers, which reduced our NDR by approximately 60 basis points in the quarter. As a reminder, that impact will roll off in Q4 of this year.

Our adjusted gross profit increased by 17% year-over-year to \$35.2 million. This represents an adjusted gross margin in the quarter of 68.8%, which is up 79 basis points over Q3 of last year and represents the third quarter of sequential expansion in adjusted gross margins. We are pleased by this performance, which is in line with our expectations given the investments we made in early 2023 in client services.

Adjusted EBITDA for the quarter was \$11.1 million, up 36% compared to the same quarter last year. This represents an adjusted EBITDA margin of 21.8%, which is up over 320 basis points from the same period a year ago. The improvement over Q3 of last year was due to continued scale from our SG&A functions and lower corporate costs.

Adjusted free cash flow for the quarter was \$13.7 million for a free cash flow conversion in the quarter of 123%. This pattern of over 100% conversion in the quarter is consistent with Q3 results over the past few years and is driven by normal cyclicity of our net working capital. For the trailing 4 quarters, our adjusted free cash flow conversion was at 53%. GAAP net income for the quarter was \$2.0 million, which on an average share count of 129 million shares results in a GAAP EPS of \$0.02 per share. Adjusted net income of \$5.9 million on the same share count produces an adjusted EPS of \$0.05 per share.

We ended the quarter with approximately \$48 million in cash and cash equivalents with no outstanding debt. Our cash balance, combined with \$100 million of capacity on our revolver, continues to give us adequate liquidity to support both our organic and inorganic growth objectives that we discussed at our Investor Day in March.

Moving on to guidance. I want to take a minute to summarize year-to-date performance and tighten up our estimates for the full year. I mentioned for the last 2 quarters a few important trends that highlight our current year revenue performance. So to summarize, new client wins continue to drive strong growth, while our back book growth is temporarily moderated. I've mentioned in previous calls that while new customer signings in the front book take several quarters to convert into booked revenue, the moderation in back book trends have more near-term impact.

With that context and given visibility into Q4, we are tightening our full year revenue guidance to a range of \$202 million to \$205 million. Our trends in profitability continue to improve due to disciplined cost management and investment decisions. We are therefore tightening our EBITDA guidance to land between \$41 million and \$45 million. At the midpoint, this represents an EBITDA margin of 21.1%, which is consistent with our original full year guide. With regard to free cash flow conversion, we are reiterating our original guidance range of 50% to 55%. We're not tightening this range given the variability we typically see in cash inflows and outflows at year-end. For modeling purposes, we continue to expect stock-based compensation for 2024 to land between \$19 million and \$20 million.

We'd now like to open up the call to questions. Operator, please go ahead.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Michael Infante of Morgan Stanley.

Michael Nicholas Infante

Morgan Stanley, Research Division

I just wanted to first start with the exploration of strategic alternatives. It's clear that the business isn't being valued like a high-teens grower with really strong margin expansion. So Oleg, it would be great to get your thoughts just on the state of the business today and how you think about some of the boundary conditions that might dictate your decision on whether or not the business stays public or private?

Oleg Movchan

CEO & Director

To start, as a matter of policy, we don't comment on the rumors. As I've been saying all along, and this remains to be true today, the management team and the Board are focused on creating shareholder value long-term and that's what we're focused on.

Michael Nicholas Infante

Morgan Stanley, Research Division

Understood. 2-part question on '25 here to the extent I can. Obviously, you alluded to confidence in the release and the mid-term outlook. But maybe just given some of the back book trends, I know, Brad, you mentioned confidence in being able to recover to that 3% to 5% range. But to the extent that we don't get back there, how do you think about the combination of some of the accelerated pricing actions and the new product developments you alluded to, to deliver on the medium-term outlook for next year specifically? And even if we don't deliver on that 2 handle for next year, and it's something like high-teens, the incremental margins for this year at 39%, even if you hold those assumptions steady for next year, it seems like you should still be able to deliver on outperformance in terms of Rule of 40 for next year. Is that generally fair or what nuance would you add to that?

Bradley Herring

Chief Financial Officer

Michael, it's Brad. Thanks for the question. A couple of parts. So one, when you think about 2025, one of the things that I mentioned was -- that gives us the confidence, we've got so many more levers to pull when we go into 2025. I want to pause just for a second to make sure everybody can understand the impact of some of the hires that Neal has made on his team, whether it's the product team, whether it's the transformation team, whether it's new heads of managed services, new heads of engineering, we've got a very different team on the field going into 2025 than we had starting in 2024.

So that gives us a lot of confidence of knowing that we've got opportunities to get product in the market. We've got opportunities to explore the pricing opportunities I mentioned. There's also a dynamic around when you go up-market, we've got much more white space in our customers. So that gives us a much more bigger TAM to work with internally on our back book. So at the end of the day, we've got a number of levers to pull going into 2025 that candidly we didn't have going into 2024. So I think more levers to pull gives us much more confidence going in, in terms of back book performance for 2025.

Going into your question around profitability, I agree 100%. We've always focused on our pass-through rates. We've always focused on allowing a fair amount of our incremental revenue to flow through into margins. So we still stand by picking up those couple of hundred basis points of margin improvement into 2025 just based on that continued philosophy that we all use internally.

Operator

Your next question comes from the line of Dylan Becker of William Blair.

Dylan Tyler Becker

William Blair & Company L.L.C., Research Division

Maybe sticking on that thread from Brad, but posing it for Oleg or Neal, kind of with that recent slew of new key hires, how do you think about kind of the evolution of the executive team and maybe the importance on the background that each of those have kind of

doing this at scale as you think about kind of incremental confidence in your push up-market and kind of the economic shift to the model here?

Oleg Movchan
CEO & Director

Yes. So let me cover the high level executive hires and Neal may comment more on a deeper level of the organization. One big issue that I highlighted is that as we are thinking about expanding into institutional asset management market, we will have to think through our brand design and brand positioning and corresponding go-to-market strategy. And so looking for senior hires on the marketing side is one of the top priorities. The same goes for some elements of the product revenue organization, basically aligning the firm to be able to capture that opportunity set as well as possible.

Neal Pawar
Chief Operating Officer

Yes. And with a lot of the new hires, senior hires who have come in over the past year, we're seeing the ability now for us to make a good investment in improvements to our managed services, continuing to build out our workbench and also continuing to build out our marketplace where we offer partnerships to companies that have capabilities that are of interest to our clients that we can sell to them through a revenue share with Enfusion. So we're [Technical Difficulty] the shelves of the product organization so that we have a lot more product on the shelf to sell to our existing clients. And we expect that to have a positive uplift on the back book as we look into 2025.

Dylan Tyler Becker
William Blair & Company L.L.C., Research Division

Okay, great. And then you guys did call out as well too, again, being included in MR RFPs as this trend up-market continues. Wondering, and you called out kind of the bookings momentum too, but if you could give us kind of a general sense of kind of pipeline trajectory there? How you're seeing the conversion trends as well too, so being included in those conversations, understanding they're naturally a bit more elongated sales cycles by nature. But how you think about kind of the evolution of the conversion trends there as well as the platform continues to mature and the value proposition continues to compound?

Neal Pawar
Chief Operating Officer

Yes. We're seeing roughly around 30%, 40% conversion for qualified opportunities in the up-market space. And in particular, what's been very helpful there in terms of opening up those opportunities has been the Workbench. And I think as Oleg highlighted earlier in the call, specific functionality in the Workbench has unlocked individual client opportunities. And bear in mind, some of these are features that have only been released in the last few months.

And so one of the great advantages, again -- and I know I often say this, but one of the great advantages of having that regular cadence, of being able to push out new features weekly is that you will not see the growth in these areas as a step change. You're going to see numerous incremental proof points that show that we're executing on the strategy and able to win those clients that perhaps we wouldn't have been able to win 2 or 3 years ago.

Oleg Movchan
CEO & Director

Yes. And just one layer on top of this. This is not just about conversions and move up-market. The product design and strategy that Neal's team is executing on also lays the foundation for eventual premium products and price increases, so actually create value for the firm that way as opposed to simply using it as a mechanism to unlock new market segments.

Operator

Your next question comes from the line of Parker Lane of Stifel.

Jeffrey Parker Lane
Stifel, Nicolaus & Company, Incorporated, Research Division

Neal, you talked about a series of upgrades in the managed services piece, I think that's the first stuff you've done since it was launched. Is that in response to feedback you're getting out there from clients or is that more about going on offense and identifying opportunities to do more and potentially extract some additional revenue from that?

Neal Pawar

Chief Operating Officer

That's a great question. It's a combination of both. We've been talking to all of our managed service clients and getting feedback on what they want to see more of. And in general, we've heard from them that they want more visual and more interactive ways of working with the team that's an extension of their own team. And so a lot of the tech upgrades that are coming out are very much in response to that.

But at the same time, and we talked about this a little bit in the Investor Day earlier this year, we also acknowledge that the way we've built the managed services business still has some elements that are more manual than frankly we would like. And so we've been investing over the past year in improving the tooling. So not only the client experience improves, but also our employees that work on it, their experience improves, and most importantly, their productivity improves, which also means that we'll be able to get much better margins out of that business as well.

Jeffrey Parker Lane

Stifel, Nicolaus & Company, Incorporated, Research Division

Got it. And one quick follow-up for Brad. Looking at the ACV distribution by the size of client you have here, you've had a really solid trend towards those \$500,000 cohort customers. Should we think about that trend line just continuing here? Should there be any reasons for that to moderate based on the lead distribution you have? And what's in the pipeline today?

Bradley Herring

Chief Financial Officer

No, Parker. In fact, that's -- it's a slide we're trying to get people to focus on. I think it's -- we certainly expect those trends to continue. And I think one of the big points we want to make sure people leave this call and reading that page take away is this is not a new trend. This has been going on for some time and we expect that trend to continue.

Operator

Your next question comes from the line of Kevin McVeigh of UBS.

Kevin Damien McVeigh

UBS Investment Bank, Research Division

Is there any way to think about like how many modules you're bringing to market today, Oleg, I guess, as opposed to maybe at the time of IPO? And what that can mean in terms of all in if clients were to use them all, what that would mean as opposed to maybe at the time of IPO just to try to dimensionalize that a little bit?

Oleg Movchan

CEO & Director

Yes, sure. So you rewind 3 years back and we basically -- our modular -- the nature of our product wasn't that modular, right? We have core PMS offering and then we had an OEMS product on top of it. And that was basically was 2 ways for us to make money. And then the third one was managed services. Today, we're setting the foundation for doing more than that. We don't like to kind of express the value that our system delivers is modular. However, as you know, clients get the platform and then they sort of expand their footprint within the platform from PMS. They integrate the accounting module and then accounting capability and then they expand the presence with OEMS and other things.

The path forward, as Neal articulated earlier, is not just about that. It's about building new products and capabilities. So first foray is the Portfolio Workbench on that front. But at some point, we will be more aggressive in, #1, creating premium features, including portfolio risk management optimization, factor attribution, things like that. So everything that happens both pre and post investment decision-making. Richer functionality on AMS. In fact, sort of being a bit more offensive as far as OEMS is concerned and actually offering it as a stand-alone product.

And other things, Neal mentioned a couple of things about marketplace. So we are gearing up on creating a more universal comprehensive framework. So we don't just build our own products and distribute it using our network, but also bring external partners and have this kind of revenue sharing or partnership agreements where it can enrich clients' experience and create value.

Kevin Damien McVeigh

UBS Investment Bank, Research Division

Helpful. And then just in terms of the client hesitancy around the election, was there anything that they pointed to just more recently? Obviously, there's -- we've been in an election cycle for a couple of quarters now. Just anything that they were highlighting the concern in terms of switching?

Oleg Movchan
CEO & Director

We did not see anything. I had several conversations with clients and people are positioned I think well. As you know, price -- markets are pretty efficient in terms of pricing. And so bearing any world is sort of falling apart post election, I think people are just thinking ahead and what will happen. I will say, the conversations about interest rate environment just lead to more and more consensus around elevated volatility levels in the marketplace, which is good for all constituents, including hedge funds. So that's just one color I can offer at this point.

Operator

Your next question comes from the line of Alexei Gogolev of JPMorgan.

Elyse Julia Kanner
JPMorgan Chase & Co, Research Division

This is Elyse Kanner on for Alexei Gogolev. My first question was, can you discuss where you're at in terms of conversations with third-party consultants and system integrators as you move up-market?

Neal Pawar
Chief Operating Officer

Yes, absolutely. We've been -- if you go on to our public social media feed, you'll see we've been actually hosting webinars with a number of the system integrators. So it's an education process where, on the one hand, obviously, we need to make sure that the integrators understand Enfusion's capabilities. We're newer to some of them. So we're spending a lot of time with them so that as they manage RFPs on behalf of their clients, they know where to insert Enfusion into the process and perhaps where not to. So that's been going really well.

And we've been using the opportunity to talk to their clients through these webinars that we've done with them and we're starting to see the fruits of that. We've got a few opportunities that they've brought to us and likewise, opportunities that we brought to them. So still in the early innings, but off to a really positive start. And we recognize that this is going to be a super important channel for us as we continue that up-market move in 2025.

Elyse Julia Kanner
JPMorgan Chase & Co, Research Division

Got it. And then for my second question, in 3Q '24, there wasn't really much sequential growth of ACV. Could you provide more color on this dynamic as typically you report around 2.5% to 3% sequential ACV growth in a given 3Q?

Bradley Herring
Chief Financial Officer

Yes. ACV is going to move around a little bit. It's not going to be as linear on a quarterly basis. That's why if you look at the charts we've put out in the earnings material, we go back 4 quarters. There's going to be some bouncing around. It's a question of who comes in, who churns, who starts to monetize, because remember, even a big booking doesn't start to get included in that ACV or ARR calc until they're in the monetization mode. So there will be a little bouncing around across the quarters, but over 4 quarter trends, you're still going to see that expansion.

Oleg Movchan
CEO & Director

Yes. And just one more element to that. I mean, investments that Neal mentioned that we are making in managed services, the framework that Brad helped us set out in front and back book dynamic, the managed services piece should help us accelerate the front book monetization. So as we get more larger complex clients, we should be able to onboard them quicker and more efficiently, which should then, of course, translate into back book and create higher ACVs quicker.

Operator

Your next question comes from the line of Gabriela Borges of Goldman Sachs.

Gabriela Borges

Goldman Sachs Group, Inc., Research Division

Either for Neal or for Oleg, I think about the success you've had with Portfolio Workbench and how much of a needle mover that's been with landing up-market, maybe expand that for us a little bit. As we think about the cadence of product innovation that you've been talking about for the last 45 minutes, what are the 1 or 2 products that we should be looking at or product enhancements that we should be looking at that you think moves the needle most with your move up-market over the next couple of years?

Neal Pawar

Chief Operating Officer

Yes. Let me -- thanks for the question. Let me outline a couple of things. First of all, and we've talked about this a little bit in the past, but to share some more color on it, as we think about the Workbench and as you've seen from some of the opportunities that the Workbench has helped us unlock, we're still very much been playing catch-up in some of that functionality and adding capabilities that some of the clients that we've been winning believe are table stakes.

In 2025, we see that trend moving more into offense than defense where we start to offer capabilities in the Workbench, mostly around more complex portfolio construction, the use of capabilities like factor models and optimizers for portfolio construction where we start to charge for those incremental features. So that's one example through the lens of the Workbench.

I think outside of the Workbench, other products where we're busy at work, also aside from managed services, which we've already talked about. I would talk a little bit about our analytics and data platform. We're just seeing more and more feedback from clients that they want to run more complex analytics on their own data. Enfusion, like most systems, is a transactional-based system. And so we don't encourage clients to run really large complex analytics, including the type of analytics you run for artificial intelligence against a transactional data store. And so we are encouraging them to move to use our data warehouse and our analytics product, which is hosted inside of Google's Cloud. And obviously, there's an additional upsell component with that as well.

The last thing I'll say is, the marketplace, while still in its early innings, has tremendous potential for us as it allows us to offer our clients a much wider range of complementary products that don't compete with the core Enfusion platform, but give clients additional capabilities around, for example, treasury and collateral management and margin calculation that they can add on to Enfusion with a revenue share to Enfusion in the process.

Gabriela Borges

Goldman Sachs Group, Inc., Research Division

Absolutely. That makes sense. The follow-up is for Oleg and Brad. So I'm thinking about some of the leadership changes that you've made over the last year. And then, Oleg, I think you just mentioned Brad introducing the front book versus back book dynamics. What I want to ask you is how that's changing some of your planning and some of your forecasting processes for 2025? So would love any commentary that you're willing to provide on how the planning process, how the forecasting process has evolved over the last year or 2 and some of the things that maybe you're more focused on now versus in prior planning years?

Oleg Movchan

CEO & Director

Great question, Gabriela, because that is certainly a process that changes pretty substantially as a byproduct of all these hires. What it's done is it's opened up much more kind of cross-corporate involvement in our planning processes. We get much more visibility of what we think is happening. And that's both from a front book and a back book perspective. I mean, I think when you think about what we're looking at in terms of pipeline, what we're looking at in terms of closure rates, we've opened up a lot of our sales force capabilities. We've got different modules in there that we're utilizing. And then how it translates into much more specific timeframes around product rollout, the sequencing of how that product rollout begins to monetize.

It's really strongly a byproduct of a lot of these folks that Neal has brought in, which is why I mentioned them as a key driver, not only of front book -- or I'm sorry, back book opportunities, but also in terms of just our visibility to see it, our ability to measure it and our ability to deploy on a much more kind of granular basis. So your point is spot on. We will have better visibility on forecasting, we will have better visibility on product rollout and we will have better visibility on how we guide the markets accordingly.

Neal Pawar

Chief Operating Officer

And we're just beginning. I mean, we are going to -- you're going to see a much more -- much broader universe of talent that come to Enfusion from our competitors from buy-side, sell-side that bring a lot of mistakes from their past lives, track record and just as important, a culture, which we're very, very focused at Enfusion. So we actually need to infuse Enfusion to past and move forward with people that actually have experience executing in an institutional asset management market and executing at scale. As we add revenue to the business, we need operators that were in their seats growing the business from \$200 million revenue to \$300 million, \$400 million, \$500 million.

Operator

Your next question comes from the line of Koji Ikeda of Bank of America.

Koji Ikeda

BofA Securities, Research Division

I wanted to ask a question on ARR. And the fact that, when I listen to the prepared remarks, the new deal commentary sounds really strong. But when I look at ARR, it did decelerate in the quarter to slightly below 13% from slightly above in the last quarter. So maybe you could talk about what are some of the underlying drivers or metrics outside of ARR that's giving you the confidence in the revenue growth acceleration that's embedded in the guide? I heard earlier maybe that \$500,000 ACV metric, is that one of the key metrics we should be looking at?

Bradley Herring

Chief Financial Officer

Koji, this is Brad. Yes, I'll take that. So when you look at ARR, remember, it's a snapshot in time. So you're right, we've seen a lot of really strong bookings. We saw some really strong bookings in Q3, for example. But if those bookings haven't started to monetize yet, which may take 30 to 60 days before the implementation fees will start, that would not be included in ARR yet.

So there's a little bit of a timing impact of how some of these bookings kind of manifest themselves in ARR, but they will be in ARR very soon. In fact, we monitor another statistic internally called [CARR], which is a contracted ARR, and that's where you can kind of see the difference between those 2. So that's -- ARR is important. But I think when you look at it over any sequential quarter, you can get a little bit of noise just based on timing.

When you look at going forward with the guide, I think I'll reiterate a couple of those points. When you go into next year, there's a couple of things that really give us conviction about getting back into our -- primarily our back book targets in the mid-teens because that's where kind of our current gap sits. I would be paying close attention to that overall ACV number. I would be paying attention to a net organic growth number, which we'll be talking about. I'll be paying attention to churn, which has returned largely to historical levels. So I feel good about that number.

But to grow that number, I think you're looking at penetration in managed services, which we'll be talking about. We're going to be talking about product deployment and cross-sell within our base. It just boils down to the comment I made a minute ago, which we have so many more tools in the toolbox going into 2025 than we had in 2024 that that puts us in a very offensive position rather than kind of sitting back in more of a defensive position against seeing what clients do in a macro environment.

Koji Ikeda

BofA Securities, Research Division

Got it, Brad. And just one follow-up here. When I look at net revenue retention, listening to all the commentary, the Q&A, it does seem to imply that net revenue retention has potentially bottomed here in the third quarter. Just curious in looking at the guidance and kind of the factors over the next several quarters, is that a fair assumption or if it is going to contract, what are some of the things that we should be aware of?

Bradley Herring

Chief Financial Officer

No, great question. I think I would say, over the last couple of quarters, we've seen it 102, 103. We haven't seen it dip below that. So I feel like it's reached a bottom point. We have seen some trends start to improve or at least stabilize. We've seen -- I've mentioned the upsells have kind of slowed down to some degree. Downgrades have largely stabilized. Churn has largely stabilized to even starting to improve.

It's hard to bet going forward. But given what we're seeing today, we certainly don't see it dropping any more from here. And that's also why we pay attention a little bit more to that back book component. I'll throw up to this call that NDR, because of the way our

client growth has been so rapid, it actually represents about 80% of our clients. So you get a little bit of skew in the NDR number just based on what client pools are in a 12-month look back versus the back book, which is 100% inclusion.

And don't forget also, Koji, we will get about 60 basis points of pick-up in Q4 when that UBS-CS impact rolls off. So I think in the next quarter, we should certainly see a slight pick-up. We're trying to figure out -- we've got targets for a bigger pick-up than just the 60 basis points. And then going into 2025 is where we'll start to see that number really start to accelerate for all those reasons we walked through.

Operator

Your last question comes from the line of Crispin Love of Piper Sandler.

Crispin Elliot Love

Piper Sandler & Co., Research Division

Just first off, you said the Americas are on track for the best launch market since 2021. Just curious if you could parse that out a little bit. Is it the best launch market for Enfusion or the industry more generally? And then can you discuss what you believe some of the factors are that are driving an increase in launches? And if you think that could be sustainable over the next few quarters?

Oleg Movchan

CEO & Director

Chris, Oleg here. Happy to take your questions. So there's nothing more granular than that from my perspective. So this is just a regional thing as we discussed. People are just deploying capital in Americas much more aggressively and taking capital away from APAC. We do see some more interest in capital deployments in Europe as well. But America is interesting, one of the most interesting environments for launches we've ever seen.

I've spoken with some of the people in the industry. It looks like people are looking to put capital to work in strategies where volatility is a friend as well as private credit. Credit strategies are typically short volatility strategies, but it's a very hot area. A lot of people are either looking to launch new funds or deploying private credit strategies within their hedge fund offerings or within vehicles; typical sort of launches that trade macro or multi-strat, that typically tend to be longer volatility than other strategies are involved. So this is sort of the high level picture.

I think overall, it's good for us. It's good for the market. And we're just capturing it. We're a de facto default system for launches in many different cases, as you know. But for us, it's just -- at this point, it's a current perimeter. It's like a homeland, so to speak. Our eyes are on the future and we're looking at that marketplace, not just on a stand-alone basis, but in part of the overall portfolio of strategies and products that the institutional asset management industry offers alongside with loan-only, fixed income equities, liquid asset classes and then the liquid private equity and private credit.

Operator

That concludes our Q&A session. I will now turn the conference back over to Oleg Movchan for closing remarks.

Oleg Movchan

CEO & Director

Thank you all for very thoughtful questions. I thought that was helpful. And we look forward to reconnecting with you shortly for the follow-ups.

Operator

This concludes today's conference call. You may now disconnect.

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Operator

Good day, everyone, and welcome to today's Benchmark Third Quarter 2024 Earnings Call and webcast. [Operator Instructions] Please note this call may be recorded, [Operator Instructions]. It is now my pleasure to turn the conference over to Mr. Paul Mansky, Benchmark Investor Relations. Please go ahead, sir.

Paul Mansky

Investor Relations & Corporate Development Officer

Thank you, Jess, and thanks, everyone, for joining us today for Benchmark's Third Quarter Fiscal Year 2024 Earnings Call. Joining me this afternoon are Jeff Benck, CEO and President; Bryan Schumaker, our CFO; and Arvind Kamal, VP of Finance.

After the market closed today, we issued an earnings release pertaining to our financial performance for the third quarter of 2024, and we've prepared a presentation that we will reference on this call. Both are available online under the Investor Relations section of our website at bench.com. This call is being webcast live, and a replay will be available online following the call.

The company has provided a reconciliation of our GAAP to non-GAAP measures in the earnings release as well as in the appendix to the presentation. Please take a moment to review the forward-looking statements disclosure on Slide 2 in the presentation.

During our call, we will discuss forward-looking information. As a reminder, any of today's remarks which are not statements of historical fact are forward-looking statements, which involve risks and uncertainties as described in our press releases and SEC filings. Actual results may differ materially from these statements. Benchmark undertakes no obligation to update any forward-looking statements.

For today's call, Jeff will start with an overview of the quarter, followed by an introduction to Bryan, our new CFO. Arvind will then detail our third quarter results, and Bryan will provide fourth quarter guidance.

As usual, we will conclude with Jeff sharing more insight into demand trends by sector, new business wins and some final remarks. If you'll please turn to Slide 3, I'll turn the call over to our CEO, Jeff Benck.

Jeffrey W. Benck

President, CEO & Director

Thank you, Paul. Good afternoon, and thanks to everyone for joining today's call. The third quarter was another successful milestone for the company, where we exceeded the midpoint of our guidance for revenue, margin and non-GAAP EPS. Let me step through a few highlights. Total revenue of \$658 million was above the midpoint of our guidance range provided in July.

We are pleased with the year-over-year growth in aerospace and defense and semi-cap, the latter being well into the double digits. As anticipated, this was offset by declines in industrial, medical and advanced computing and communications. While demand over the last few quarters has certainly stabilized, we continue to see end market softness in several sectors, weighing on our opportunity to grow revenue year-over-year.

Third quarter non-GAAP gross margin of 10.2% marked the fourth quarter in a row of 10% or better margin performance. I'm particularly thrilled to share non-GAAP operating margin of 5.3% represents the 16th consecutive quarter of year-over-year operating margin expansion. This performance, coupled with our revenue achievement, enabled us to deliver \$0.57 in non-GAAP earnings per share in the quarter, which was at the higher end of our guidance.

We continue to execute on our working capital initiatives led by inventory management, which enabled us to deliver \$29 million in free cash flow in the quarter, bringing our trailing 12-month total to \$245 million.

I would now like to pass the call over to Bryan, who has only been on the job a few weeks, but I'm already confident he will make a significant impact as we continue to drive our strategy forward. With that, Bryan, over to you.

Bryan R. Schumaker

Executive VP, CFO & Principal Accounting Officer

Thank you, Jeff, and thank you to everyone for joining the call. Today marks my third week at Benchmark. During this brief time, I have already come to further appreciate the customer-first culture, the depth and quality of the team and the incredible opportunity in front of us driving significant shareholder value.

As I consider joining Benchmark, it was clear the company has done a great job of focusing on high-value sectors while maintaining operational discipline over the last several years. Looking forward, it is equally clear the EMS industry is entering a structural multiyear growth cycle regardless of any near-term macro headwinds.

I think Benchmark is uniquely positioned to capitalize on this, and I'm thrilled to be a part of it as we seek to maximize our opportunity, both operationally and as a trusted partner to our customers. With that, I'd like to turn the call over to Arvind for a review of our September financial results.

Arvind Kamal

Thank you, Bryan, and good afternoon. Please turn to Slide 4 for our revenue by market sector. As Jeff mentioned, our total revenue in Q3 was \$658 million. Semi-cap revenue increased 13% year-over-year, supported by improving demand and new customer wins.

Industrial revenue decreased 2%. The decline was driven by reduced demand from existing customers, partially offset by new program ramps. Medical revenue was down 28% versus the prior year. We continue to see inventory rebalancing and end demand weakness primarily impacting medical devices.

A&D revenue was up 2%. The Commercial aerospace demand remains strong, both within aviation and space applications. Meanwhile, we continue to see robust demand within defense, where we are benefiting from existing program ramps and the launch of new programs. AT&T decreased 27% year-over-year. This decline was driven by several large HPC programs being completed earlier in the year, coupled with continued weakness in our communications business.

Please turn to Slide 5. Our GAAP earnings per share for the quarter was \$0.42. Our non-GAAP EPS was \$0.57, which was at the high end of our guidance range of \$0.52 to \$0.58. As a reminder, our non-GAAP results exclude stock-based compensation, amortization of intangible assets and restructuring expenses.

For Q3, our non-GAAP gross margin was 10.2%. This represents a 50-basis point increase year-over-year. Non-GAAP SG&A expense was \$32.3 million, down 4% sequentially and flat year-over-year. Non-GAAP operating margin was 5.3%, up 20 basis points sequentially and up 10 basis points year-over-year, driven by gross margin expansion.

Our third quarter non-GAAP effective tax rate was 23.7%. Non-GAAP ROIC in the third quarter was 9.9%. Please turn to Slide 6 for trended financials on a non-GAAP basis. As you will see, despite demand challenges among some of our end markets, we continue to focus on protecting operating margin, which again expanded year-over-year. Please refer to Slides 7 through 9 for a discussion of our cash conversion cycle, liquidity and capital allocation performance.

Our cash conversion cycle days in the quarter were 90 days, consistent with our performance in Q2. In Q3, we continue to execute on our working capital efficiency plan, which, combined with our net income performance, enabled us to generate \$39 million in operating cash flow and \$29 million of free cash flow in the period. On a trailing 12-month basis, we have generated \$245 million in free cash flow.

Our cash balance on September 30 was \$324 million, a sequential increase of \$15 million. During the quarter, we reduced debt by another \$11 million, leaving \$125 million outstanding on our term loan and \$155 million against our revolver from which we have \$391 million available to borrow.

In the quarter, we invested approximately \$8 million in CapEx in support of continued growth and enhanced capabilities in our Mexico, Penang and Romania facilities. In support of returning capital to our shareholders, we have paid cash dividends of \$6 million in the quarter.

Finally, in Q3, we repurchased approximately 127,000 shares at an average price of \$40.27 per share, totaling \$5.1 million. As of the end of the quarter, we had approximately \$150 million remaining in our existing share repurchase authorization. I would now like to turn the call back over to Bryan to discuss guidance for the December quarter.

Bryan R. Schumaker

Executive VP, CFO & Principal Accounting Officer

Thanks, Arvind. Please advance to Slide 10. For our fiscal Q4 ending December, we expect revenue to be within a range of \$640 million to \$680 million. We expect non-GAAP gross margin to be 10.2%, which is consistent with our performance over the last several quarters.

Non-GAAP SG&A expense is expected to be within a range of \$34 million to \$36 million. With those inputs, we would expect non-GAAP operating margin to be between 4.9% and 5.1%.

For Q4, we expect approximately \$3.5 million of stock-based compensation, \$1.2 million in amortization of intangible assets and \$1 million of estimated restructuring and other expenses. Our non-GAAP diluted earnings per share is expected to be in the range of \$0.53 to \$0.59.

Other expenses net are expected to be approximately \$6.4 million. Although interest expense is expected to decline sequentially, this will be partially offset by an anticipated increase in foreign exchange costs. We expect our Q4 non-GAAP effective tax rate will be between 22% to 24%. Our weighted average share count is expected to be 36.6 million.

Finally, we expect to continue to deliver positive free cash flow in the quarter, inclusive of \$12 million to \$14 million in capital spending. For the year, we expect free cash flow to be greater than \$130 million.

And with that, I would like to turn the call back over to you, Jeff.

Jeffrey W. Benck

President, CEO & Director

Thanks, Bryan. Please turn to Slide 12 for a discussion of our performance by sector. Our Semi-cap revenue grew 13% year-over-year, driven by new wins and further share gains. We continue to see signs of recovery in the sector, although it's clear to say this cycle has not followed historical patterns.

We are long in the space and investing for the future, but the pace of the next up cycle has been a bit challenging to predict. While we expect 2025 to be a growth year, it seems the first half will continue to have pockets of weakness. Select OEMs are still bringing inventory levels down as others work to support incremental demand. Netted against each other, we believe we are still in the early stages of the market recovery.

Despite this near-term choppiness, I'm pleased with our continued win momentum. Coupled with our capacity expansion, including our new facility in Penang, which opened in September, we are well positioned to capture incremental share during the inevitable upturn in this critical sector to the world's economy.

Supporting my confidence, we continue to score some meaningful new wins in this vertical. This past quarter, I was particularly encouraged by the large number of new engineering wins we achieved on next-gen platforms. We also had a competitive takeaway with a large customer that includes both machining and assembly that will be manufactured here in the Phoenix area.

Our strong position and incremental wins are enabling us to grow our Semi-cap revenue greater than 10% in 2024, which is more than 3x the expected industry growth rate this year.

In medical, similar to the last few quarters, end demand softness has weighed on sector performance. This isn't concentrated within a specific program or customer. It's clear there is broad market weakness, most notably within medical devices, which we expect to continue for the next few quarters. We continue to pick up new wins in life sciences and Class III medical devices, which speaks to the long-term growth opportunity in the sector.

By way of example, this past quarter, we had a number of key wins, including a competitive takeaway with one of our largest customers. We also won the manufacturing for a new ultrasound device and had a key engineering win in the cardiology space with a new customer.

As you know, engineering wins tend to drive future manufacturing wins. So, I'm pleased to see us keep up the momentum, both in our traditional medical sector and in our growing biotech business.

Turning to Complex Industrials. We continue to win new business in key growth subsectors. This past quarter, we won an RF-based monitoring module with applications across a number of industrial and commercial markets. Importantly, this key piece of business was awarded because of our engineering capabilities.

In addition, we won an impressive number of new engineering engagements across multiple customers over the last 90 days. This ties directly to our continued investment in the complex industrial sector given the growth opportunities we see. Although this sector may be down sequentially in Q4, we expect to return to modest year-over-year growth in the period, which we look to build on in the quarters to come.

Turning to A&D, this sector continues to perform very well for us. Although year-over-year growth moderated in Q3, we expect the pace to pick up and return to double-digit growth in Q4 on both a sequential and year-over-year basis. Our defense business continues to see demand strength from both existing programs and ramping new wins.

At the same time, our supply chain efforts are enabling us to meet the growing demand. This past quarter, we are pleased to have a couple of new platform wins, representing a significant expansion of our manufacturing partnership with an existing customer. One was in communication controls and the other in aircraft modernization.

Within the aerospace, demand has stayed strong for several quarters. I'm particularly pleased with the continued momentum in bookings from new space applications where just this quarter, we've secured several new wins across both engineering and manufacturing.

Lastly, AC&C revenue declined 27% year-over-year in the September quarter. As we've been saying for some time now, we expect sector pressure to persist throughout the rest of 2024 and the first half of 2025, driven by the completion of several large HPC programs and some delays in the timing of the follow-on platforms. Within communications, a customer disengagement we previously discussed continues to impact our year-over-year growth as expected.

Looking forward, we are working on new product introductions across multiple programs for a large wireless transport customer. These efforts resulted in a sizable follow-on booking in the quarter that's expected to begin contributing in the second half of 2025. Elsewhere within communications, this past quarter, we saw a key win in the geospatial imaging market, which carries the potential to be significant over time.

In summary, please turn to Slide 13. The September quarter once again demonstrated Benchmark's ability to control what we can control while we remain committed to investing in our customer success in support of our mutual growth. We believe consistency is important and the breadth of our portfolio across sectors and customers has enabled us to weather the dynamic market environment while continuing to improve our operational execution and margins.

Benchmark has now delivered 16 consecutive quarters of year-on-year non-GAAP operating margin expansion. This has been irrespective of the demand environment, which has historically not been the case in our space. I believe this speaks to our maniacal focus on building the right portfolio and controlling our costs, particularly during periods in which revenue growth is challenged.

We've also improved our working capital management, led by our inventory reduction efforts. This past quarter, inventory was down more than \$140 million year-over-year, making this the fifth consecutive quarter of annual inventory reductions. This has supported our free cash flow generation, which has totaled almost \$0.25 billion over the last 12 months.

We have leveraged our strong cash flow to further improve our balance sheet while returning capital to shareholders. We've significantly reduced our revolving debt balance and have now been net cash positive for the last two quarters.

At the same time, we've consistently paid our quarterly dividend, which was increased to \$0.17 per share last quarter. Finally, this past quarter, we resumed our share repurchase activity, buying approximately \$5 million in stock.

Let me wrap by saying regardless to the market environment, our mission remains the same. We're going to support our customers with anything they require to improve product realization and speed their time to market. We're also going to drive further operational improvements within the company, including efficient use of working capital. Lastly, we will return capital to our investors through the dividend and share repurchases.

We're encouraged by the pipeline of significant new opportunities in front of us, the wins we've already secured and those that are ramping and the potential for an improved macro environment, all of which increases our confidence that we will see a return to growth in 2025.

With that, I'll now turn the call over to the operator to conduct our Q&A session.

Question and Answer

Operator

[Operator Instructions] We'll go first to Jaeson Allen Schmidt with Lake Street.

Jaeson Allen Min Schmidt

Lake Street Capital Markets, LLC, Research Division

I know the outlook for the year for each sector is unchanged, but just curious if there are any sectors you're a bit more optimistic about now than you were last call?

Jeffrey W. Benck

President, CEO & Director

It's Jeff. I'll take it. Thanks, Jaeson, for your question. We certainly are encouraged by some of the semi-cap recovery that we started to see. We did talk about there being some inconsistency across OEMs, but we feel that we have started to see the recovery, even though as we get into '25, we'll have a better feel. And then A&D just continues to be strong. And Q3 was a little bit of a pause in year-on-year growth, but we see that picking up again in the fourth quarter. That's probably where I would center my thoughts.

Jaeson Allen Min Schmidt

Lake Street Capital Markets, LLC, Research Division

And just curious if sort of the pricing environment when you guys are going out to bid for programs has remained pretty rational.

Jeffrey W. Benck

President, CEO & Director

Yes. It's been very rational. There's always competition, and we focus on what we're good at. We differentiate ourselves with the highly regulated complex solutions. Engineering content is always a plus. You saw we had one win where engineering helped us lead the engagement and really was the reason why we won.

It is competitive, but the pricing environment is pretty rational. And I think customers are in a tough economic environment, looking for cost savings. And so, they're certainly focused on how we can drive operational improvements to meet those needs. But, all in all, I'd say it's a pretty rational environment.

Jaeson Allen Min Schmidt

Lake Street Capital Markets, LLC, Research Division

And then just the last one for me, and I'll jump back in the queue. You highlighted the continued operating margin growth going forward even against this kind of more challenging demand backdrop. When the demand profile flips back, how much further upside do you think you can drive that operating margin line?

Arvind Kamal

Yes, Jason, this is Arvind. You've seen consistently, we're delivering 10% gross margins, non-GAAP operating margins in the kind of the 5% neighborhood. I would say one of the key things that we're looking and you're seeing small pockets of this is the semi-cap recovery. But once we get that more to be more uniform, we anticipate anywhere from 25 to 50 basis points of additional OI, if you will, OI percentage, if you will, based on that recovery. And then as Jeff pointed out in his script, that's more back end of 2025. Anything you want to add?

Bryan R. Schumaker

Executive VP, CFO & Principal Accounting Officer

Yes. Maybe before, I'm Bryan, you can certainly weigh in too, but this is Jeff again. I also think that we've done a good job of really watching costs and getting operationally efficient. Revenue growth helps a lot, just bring leverage.

And so, as we see a return to growth, particularly in some of the softness in industrial and medical, that will certainly help as you think about SG&A as a percent of revenue and what we might drop to the bottom line. So, those things can contribute. But we're not saying we're done on operational improvements. We are maniacally focused on that and still look for areas.

A lot of times, this has to do with is there demand in particular sites where we may have underutilization. You know we've invested a lot in Mexico and Romania. And now we've got capacity. And as we fill that, that will help us there as well.

Operator

[Operator Instructions] We'll move next to Steven Fox with Fox Advisors.

Steven Bryant Fox

Fox Advisors LLC

Take a little bit of the corollary to the questions that were just asked. The markets that aren't performing well, industrial, control equipment, medical, some of these markets have been sort of dragging on for longer than is typical on a downturn and not that you guys are the only ones seeing that everyone in the supply chain is.

But I guess, how do we get any kind of like even green shoots of improvements that may be coming? Do you see any of that at all? Or is this something that just could last even longer than even next year Yes.

Jeffrey W. Benck

President, CEO & Director

Thanks, Steven. Good question. We are seeing some, I would say, green shoots like in industrial, I would say, for sure. We've seen a stabilization. You'll see some year-on-year growth in fourth quarter. I think we're more constructive, partly also because we've been winning new business, which is going to help us there.

Medical does seem to be dragging on a bit longer given the focus on inventories and where people are there and coming out of COVID where people right-size, it does feel like it's a bit more prolonged. But I would say in industrial, we think that, that's starting to turn the corner and see good opportunity there. And then in telecom, there's just some unique things going on there.

We've got some good new wins in AC&C that we're pretty encouraged about. But I would say just based on the ramp, that will be more back end of '25 that we'll see stronger recovery there. But we feel like we see line of sight just because we know we're in NPI or new product introduction phase on that. So, several new logos that will help us there.

Steven Bryant Fox

Fox Advisors LLC

And then just on the engineering services piece of the business. I mean, it sounded like you mentioned it more in the script than you have in prior quarters, not that you didn't mention it previously. I'm just wondering if anything has changed there or if not, where you're being more effective because you mentioned it across a bunch of different markets.

Jeffrey W. Benck

President, CEO & Director

Yes. We did have a lot of wins in engineering. Not all of them were huge, but we probably had a more pronounced number. We still think we can certainly do more. We are seeing good engagement in the semiconductor sector, which is an area that's been growing for us, and that's great because we want to help with engineering across all the sectors.

We highlighted it because I've hired a lot of folks in the industry. And when they come to bench, they're like, wow, we really design a lot of products. It's not just about having engineers that can do industrial engineering and plant layout. We do a lot of product development, and that's such a great lead into them being the best person to build the products. So, it's kind of core to our value prop and what differentiates us.

There is a lot of focus in engineering within our team because we do think that it's higher value add. And, like I said, it can lead to the manufacturing piece. And sometimes in tough environments, there could be pressure on it. We see it holding up pretty well in the macro that's happening here. And it's just important to us, and that's why we try to give a little more color on it.

Operator

[Operator Instructions] It appears we have no further questions at this time. I'd now like to turn the conference back to Mr. Mansky for any additional or closing comments.

Paul Mansky

Investor Relations & Corporate Development Officer

Thank you, Jess, and thank you, everyone, for participating in Benchmark's Third Quarter 2024 Earnings Call. As a reminder, we'll be attending the Raymond James TMT and Consumer Conference in New York on December 10. Also in New York, we'll be attending the 27th Annual Needham Growth Conference on January 14.

For updates to upcoming events and other conferences, please check the Events section of our IR website at ir.bench.com. With that, we thank you again for your support and look forward to speaking to you soon. Good evening.

Operator

Ladies and gentlemen, this does conclude today's program. We thank you for your participation. You may disconnect at this time.

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