

NASDAQ:AMSC Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good morning, and welcome to the AMSC second quarter fiscal 2025 financial results call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's remarks, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touch-tone phone. To withdraw your question, please press star, then two. Please note this event is being recorded. I'd now like to turn the conference over to Nicole Coles, Director of Communications.

Nicole Valdez | Director of Communications, American Superconductor Corporation:

Please go ahead. Thank you, Jason. Good morning, everyone. And welcome to American Superconductor Corporation's second quarter of fiscal year 2025 conference call. I am Nicola Valdez, AMC's Director of Communications. President and Chief Executive Officer, and John Conceiva, Senior Vice President, Chief Financial Officer, and Treasurer.

Nicole Valdez | Director of Communications, American Superconductor Corporation:

Yesterday, after the market closed, American Superconductor issued its earnings release for the second quarter of fiscal year 2025. A copy of this release is available on the investor's page of the company's website at www.amsc.com. During today's call... Remarks that management may make about American superconductors' future expectations, including expectations regarding the company's future financial results, plans, and prospects constitute forward-looking statements. Actual results may differ materially from those indicated by such forward-looking statements as a result of various factors, including those set forth in the risk factor section of American Superconductors Form 10-K for the year ended March 31st, 2025, which the company filed with the Securities and Exchange Commission on May 21st, 2025. as well as their other filings, all of which are available on our website. The company disclaims any obligation to update these forward-looking statements. On today's call, management will refer to non-GAAP net income on non-GAAP financial measure. Tables of reconciliation of GAAP to adjusted financial measures can be found in the company's earnings release. With that, I will now turn the call over to Chairman, President, and Chief Executive Officer, Daniel McGann. Daniel?

Daniel McGann | Chairman, President, and Chief Executive Officer:

Thanks, Nicole, and good morning, everyone. I will begin today by providing an update and sharing a few remarks on our business. Chairman John Cassiba will then provide a detailed review of our financial results for the second

Nicole Valdez | Director of Communications, American Superconductor Corporation:

which end at September 30, 2025, and provide guidance for the third fiscal quarter, which will end December 31, 2025. Following our comments, we'll open up the line to questions from our analysts. with revenue of nearly \$66 million. This is our third consecutive quarter performing at this higher revenue level. Second quarter revenue grew more than 20% year over year. strong execution across our grid and wind businesses.

Our grid business delivered strong growth of over 15% compared to last year's quarter. Our wind business also posted an impressive growth of over 50% from the year-ago period. We delivered our fifth consecutive quarter of profitability and our ninth consecutive quarter of non-GAAP profitability. Gross margins top 30% again. And we closed the quarter with a strong balance sheet of over \$215 million in cash. Overall, we posted a quarter of very strong results. Revenue came from a broad mix of sectors.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

About one quarter of our sales came from traditional energy projects, with another quarter from renewable energy projects. Materials projects, which include semiconductor, accounted for over one-fifth, while military and other industrial sectors made up the remaining portion. This diverse mix of revenue reflects the growing demand across our end markets and the reach of our technology. We are being designed into more and more projects where our proprietary technology has become the go-to solution, which is a great validation of the value we bring. Our technology has gained a strong foothold across multiple sectors. I'll now turn the call over to John Kasiba to review our financial results for the second quarter of fiscal 2025 and provide guidance for the third quarter of fiscal 2025, which will end December 31st, 2025. John.

John Kasiba | Senior Vice President, Chief Financial Officer, and Treasurer:

Thanks, Daniel. Good morning, everyone. AMSE generated revenues of \$65.9 million for the second quarter of fiscal 2025, compared to \$54.5 million in the year-ago quarter. Our grid business unit accounted for 83% of total revenues, while our wind business unit accounted for 17%. Grid business unit revenues increased by 16% in the second quarter versus the year-ago quarter. The increase in revenue was primarily driven by the organic growth within our new energy product lines. Wind business unit revenues increased by 53% over the same time period. The increase in revenue was primarily driven by additional shipments of electrical control systems. Looking at the P&L in more detail, gross margin for the second quarter of fiscal 2025 was 31% compared to 29% in the year-ago quarter. This increase in gross margin was primarily due to a favorable product mix, particularly within our grid business unit. This is now two consecutive quarters with gross margins exceeding 30%. Now, moving on to operating expenses. R&D and SG&A expenses for the second quarter of fiscal 2025 were \$17.1 million compared to \$13.2 million in the year-ago quarter. This increase is primarily driven by the incremental NWL operating expenses and higher stock compensation expense. Approximately 21% of R&D and SG&A expenses in the second quarter of fiscal 2025 were non-cash. We generated non-GAAP net income for the second quarter of fiscal 2025 of \$8.9 million, or 20 cents per share, compared with a non-GAAP net income of \$10 million, or 27 cents per share, in the year-ago quarter. Our net income on the second quarter of fiscal 2025 was 4.8 million or 11 cents per share. This compares to net income of 4.9 million or 13 cents per share in the year-ago quarter. Included in both net income and non-GAAP net income in the year-ago quarter was the release of a \$5.1 million valuation allowance. due to the recording of the deferred tax liability from the acquisition of NWL. This was a non-cash benefit in last year's results. Please see our press release issued last night for a reconciliation of GAAP to non-GAAP results. We ended the second quarter of fiscal 2025 with \$218.8 million in cash, cash equivalents, and restricted cash. We generated operating cash flow in the second quarter of fiscal 2025 of \$6.5 million. Now turning to our financial guidance for the third quarter of fiscal 2025, we expect that our revenues will be in the range of \$65 to \$70 million. Our net income on that revenue is expected to exceed \$2 million, or \$0.05 per share, and our non-GAAP net income is expected to exceed \$6 million, or \$0.14 per share. With that, I'll turn the call back over to Daniel.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Thanks, John. We have sustained an average quarterly revenue above \$65 million for the past three quarters. And you can see we're bullish with our expectation that this trend could continue next quarter. As is common in our business, timing plays a key role in quarterly results. Some quarters benefit from accelerated timing of projects or earlier deliveries. Others see projects shift into the next quarter or next period. Typically, our 12-month backlog represents about nine months of business. The team is always selling projects out six, nine, or 12 months, and in some cases, beyond 12 months. Our lead times have been reduced for the overall business. And we see this as a competitive advantage. We are growing. We are executing with discipline and focus. And we have tremendous tailwinds at our back. Our results reflect our progress in scaling the business, diversifying revenue, and driving outstanding financial performance. For our second quarter, we saw Strong order demand across energy and military markets. Most of our orders came from traditional energy and renewables, making up nearly 65% of total orders. Military followed at roughly 15%, with the rest driven by materials such as metals, mining, and as well as other markets. This demand is supported by powerful tailwinds across multiple sectors with significant investments projected for 2025. In energy, traditional energy like oil and gas are expected to see over \$1 trillion in capital spending, while renewables are attracting more than \$750 billion. International growth, particularly in renewables, adds another layer of long-term opportunity. In materials, the global mining project pipeline exceeds \$1 trillion. Investments in semiconductors and global data centers together are expected to top \$650 billion. And in military, defense spending is projected to reach nearly \$3 trillion. These sectors represent massive long-term capital investments. We believe we are well positioned to benefit with our broad product portfolio across power electronics, grid infrastructure, and military systems. We see steady growth in demand. Over the past four quarters, we've averaged over \$60 million in new orders per quarter. That is an improvement from the prior four quarters, which averaged over \$45 million per quarter when we exclude the exceptional order we received from the Royal Canadian Navy. We've closed the quarter with a strong pipeline of opportunities and a 12-month backlog of well over \$200 million. We did win a new contract with the US Navy to begin design for a whole new class of product that we will hopefully talk about in the future. As we look ahead, we did mention last quarter about a coming acceleration in our military business. We see this coming. We expect revenue to be driven by strong activity in materials, particularly semiconductors, along with increasing investments in data center infrastructure. We may even see another acceleration in the coming quarters in this part of our business. We are benefiting from power-intensive materials manufacturing. These are the feedstocks of the future. Our semiconductor offering performs exceptionally well, helping protect fabs from power variability and supporting the rapid build-out we're seeing in that market. We are just beginning in data centers. We have served grid projects to help support a more resilient grid and now hope to begin to deliver directly to data center construction projects. In addition, we've broadened our reach beyond renewables to include traditional energy projects. That diversification is making our business stronger and more resilient across multiple sectors. We are prepared to capitalize on the growing demand for energy and the need for a stable grid to support it. We are excited about the future. and we believe we're exceptionally well positioned to capitalize on the opportunities ahead. After an acceleration in the first quarter, the business performed nicely in the second quarter. We are guiding to another strong quarter ahead. Our third quarter is off to a great start, supported by healthy new orders. The business is seeing tailwinds across the energy and materials markets. expansion in material capacity and build out of data centers could further accelerate this part of our business. Given our backlog and balance sheet, the business is very well positioned for what might lie ahead. Our future facing technologies help harmonize the world's desire for decarbonization and and clean energy with the need for more reliable, effective, and efficient power delivery. I look forward to reporting to you again following the completion of our third fiscal quarter of 2025. Jason, we will now take questions from our analysts.

Operator | Conference Operator:

Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Our first question comes from Eric Stein from Craig Hallam. Please go ahead.

Eric Stein | Analyst, Craig Hallum:

Hi, Daniel. Hi, John. Hey, Eric. Good morning. Good morning. So wondering if we could start, you know, so obviously you talked about, you know, you've been above 60, 65 million here for a couple quarters, and the typical cadence of your business has been you're at a level, those orders pick up, you see that, you know, then your revenues obviously pick up. And so I'm just curious, you know, thoughts given your macro tailwinds, how you're positioned, expanded offering, you know, what you're seeing on the order front? and what that implies about kind of that next step up for the company.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Yeah, I think the next step is going to be determined on how all this cadence comes together at a single point in time. But, you know, we do see an acceleration coming in military, not only from new orders that I mentioned, but also based upon, you know, the more complete offering that we now have, not only protecting ships, but powering ships, and powering the construction of the ships. So there's a bunch of opportunities there for us. I did mention that we do see a potential acceleration, kind of similar like we did in Q1, with semiconductor build-out. We have a pretty robust pipeline and backlog of orders there. And in data centers, we hope to announce at some point in the relatively near future that we've delivered on our first project to the construction of a data center. We think that opens up a whole other opportunity for us, but it's very early days there. So I think it's always hard for me to tell you definitively what it's going to look like to get to 75 or to 80 and beyond, but I think when you look at the macro environment that we're in, Everything is at our back right now. We see that with the pipeline. We see that with the cadence of the orders. We see that the operation is being able to deliver timely to customers. I mentioned that our lead times are shrinking. That's a good sign, I think, in our business. It gives us a competitive advantage, we think. So as we start today, we think that the opportunities for us are bigger and brighter than they were even a quarter ago.

Eric Stein | Analyst, Craig Hallum:

Got it. Maybe just digging in on the data center piece, I mean, obviously top of mind in the market. I know it's early days, but I mean, is that something that you envision eventually becomes where you're specced in like you have been with some of the semiconductor fabs with that data center provider?

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Yeah, I think that's where we're hoping to go. I don't know how long it will take. But when you think about design wins, we're specced in a variety of systems for the military. We're specced into a number of chip makers for fabs. We don't talk a lot, but we're specced into a lot of utilities. where our products are things that they can basically purchase on order as opposed to doing a whole design work and selling them on the efficacy of the technology. That's been a huge transformation of the pipeline for utilities. Some of that's driven by data center, really the data center impact on the grid. But now we're seeing that EPCs that we've worked with for many years are getting more and more involved with data centers, and they're attempting to pull us along with them. Our hope is that customers that are very familiar with us, as they get more involved with construction and data centers, are going to turn to us like they have in other industries as a known and

trusted supplier. So we think there's a very nice opportunity there. How long it takes to pay off, I don't know. I think what we're optimistic is that there are so many positive signs in our business that the business should continue to improve. I understand always the question is the cadence, and you have it right. We've gotten to a level. This is a great level for us to be at. I think we finally demonstrated the level of profitability we can get at this level, and now we're looking to kind of continue to push with our key customers to expand our order book, and I see that coming in the coming quarters. Okay, thanks.

Operator | Conference Operator:

Our next question comes from Colin Rush from Oppenheimer. Please go ahead.

Colin Rush | Analyst, Oppenheimer:

Thanks so much, guys. Given some of your advantages around having compact form factors, your ability to deal with high voltage, and some noisy power, along with some of the expertise that you guys have around DC-to-DC architectures and where the data centers are going in terms of how they're being built out, can you just talk a little bit about how you see your competitive advantage in that data center opportunity, given where the technology is headed and some of the legacy IP that you guys bring to the table.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Have you been on some of our sales calls recently, Colin?

Nicole Valdez | Director of Communications, American Superconductor Corporation:

I mean, listen, we see the alignment, but...

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Yeah, but I mean, you're talking about kind of how we go about marketing what we have. I think the idea of noisy, less resilient grids are a key in the data center market. I think first and foremost, what we've really discovered is a lot of it's about time and speed. So being able to build things quickly, being able to focus on lead time, Being able to focus on our supply chain, you know, if that part of the business starts to ramp, that's been, I'll say, something that the team has had some focus on. I hope that we can talk about more specifically what we're doing. I think as we kind of figure out where our fit is, I think that there is an opportunity for an offering across our businesses. So not thinking... the individual elements but a combined offering. And I think order sizes could be quite large in the data center area. But you have it right. It's about the noisiness of the system, and it's about quieting it quickly and being able to deliver stuff to site that fits in well. You mentioned the compact nature of it. So speed and size is kind of really paramount, we think, in this application, and that's really the strength of our technology.

Colin Rush | Analyst, Oppenheimer:

That's super helpful. And then, you know, broadly speaking, you know, the customer base is diversified. You know, your end market exposure is diversified. But the military history here is pretty meaningful for the company in terms of what your opportunity set is. Can you talk a little bit about, you know, you've got the ship protection system business, but there's also the port opportunity. You know, how much progress are you making around the non-ship military exposure in terms of resilience for some of the infrastructure that, you

know, the Department of Defense is looking for in its, you know, kind of asset base over the course of the next, call it four to five years?

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Yeah, there's kind of... three flavors to what we're offering. There's the protection, which is the superconductor-enabled technology. There's powering critical ship systems, which we have a number of design wins there. Many of the ships that were on with power supplies are the same size or bigger, what we're doing in protection. So that's a very important part of the business. And the third part, as you mentioned, for ports or for construction, That's an area that we see acceleration potentially coming. We're designed in for a number of shipmakers. We've been able to take the relationships we have in helping to build the ship with capability to now powering the capacity to build those ships. So that's an area that there's investment that is forthcoming. There are pieces of our backlog that represent that, but we think that there's some order pipeline that can help that grow. And that's why last quarter, this quarter, you know, I see the signals of an acceleration on the military side, you know, coming. I think, again, to go back to the previous question, for us, it's always hard to kind of predict when the timing comes. We know when need dates are. We know, you know, what our build cycle is going to be and We try to map those two together for the customer and deliver what they need when they need it.

Nicole Valdez | Director of Communications, American Superconductor Corporation:

Thanks so much, Daniel.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Thanks, Colin.

Operator | Conference Operator:

Again, if you have a question, please press star, then 1. And our next question comes from Justin Clare from Roth Capital Partners. Please go ahead.

Justin Clare | Analyst, Roth Capital Partners:

Hi, good morning. Thanks for the time. Good morning, Justin. Sure. Good morning. So I guess I also wanted to just follow up on the data center opportunity and just wanted to see, you know, are you currently engaged with utilities on that opportunity or data center developers? And then wondering if that is something you see as more at the substation level, or do you see the ability to kind of offer a solution within the Dana Center? Any added detail you could share on the specifics of the solution that might be a good fit for that end market?

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Yeah, I think the good news today, and maybe I can say it more clear than the last quarter, is that the answer to your question is D, all of the above. We started with the relationships with utilities to be able to fortify the grid. So challenges that are happening on the grid side because of the rapid build-out and demand for power from data centers. We're now seeing bids where there's direct offering to the construction of a data center that will be directly with the developer and And in many cases, it's an engineering procurement construction company that knows us well that we know well. So that puts us in a good position where we're not trying to

sell the efficacy of technology. It's more about lead time and how can we get product into the field faster. The feature set, it's really, and that's what we're talking about with the previous question, it's really managing the noisiness that can come from the grid or can cause disruptions for the data center. It's very similar to, not quite identical, but similar to what we do for a semiconductor fab, where you're trying to deal with the speed of transient changes in the power flow. Those are even more critical for data centers even than a semi-fab. So as they're trying to build those out more rapidly, they're trying to find simple solutions for their problems that they can get to quickly. So that's why we're excited about it. I hope to talk about that market more in the future. I think it is early for us, but I'm hoping that we talk about some wins and some deliveries soon. in the coming quarters.

Justin Clare | Analyst, Roth Capital Partners:

Okay, great. And then you mentioned the semiconductor market and the orders there. I'm wondering for the data center and market here, would you anticipate the order sizes being similar to those in the semiconductor market? And then I guess while we're on it, I wonder if you could just speak to the trend in orders for semis, it sounds like, you know, historically those order sizes have been increasing. Is that trend continuing at this point?

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Yeah, simple order magnitude with the semiconductor fab, we offer anywhere from 2 million to 10 million of content. We've gotten orders within those ranges, you know, to the low end and certainly to the high end. That's what's helped, I think, the financials and the scale there. On the data center side, we have projects that are exactly in that same range and larger. I think that what we need to do is kind of crawl before we walk and walk before we run. We want to get to the point where we can deliver, we'll say, first systems into the construction of data center. And then I think the opportunity there is certainly possible for larger and larger order sizes. I don't know what those will be until we get them, but certainly we hope to be able to talk about those in the future.

Nicole Valdez | Director of Communications, American Superconductor Corporation:

Okay.

Justin Clare | Analyst, Roth Capital Partners:

And then just one more follow up on the military business. You mentioned that you had wanted a new contract with the US Navy for a new class of ship. I'm wondering, did that show up in the backlog this quarter or is that something you anticipate in the future? And then just thinking through the magnitude of the potential impact, you've been on one class of ship so far. If you're seeing a new class of ship now, could you potentially double the ship protection business? Any sense for the magnitude of the impact here would be helpful.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

So the contract that we won is for the design of a completely new class of product, not for protection. The order of magnitude of it is greater than ship protection, but the time it will take to develop and deliver and test and qualify, that's not in the immediate future. We're at a step where we're looking to design, look to be able to understand what the value and the efficacy are there, and then get them to the point where you do pre-production product and do all the things we've had to do on the protection side. I don't want to get people

so excited that in the coming quarters you're going to see that driving a ramp in the military part of our business. What's going to drive the ramp in our military business is more powering ship systems and powering the port and the construction of ships. That's what we see kind of in the very near term. So part of why we don't put a press release out about this order and things, because I don't want people asking for an update every quarter, every year, where we are. A lot of the technology that we're going to work on for the U.S. military will be at a level of clearance. We're not going to be able to talk about it. So we're wildly excited inside the company on this win. It's been many years in the making. There's been a whole huge team that's been after it. This has been a big part of their drive and desire to help diversify our offering for the U.S. Navy. But we're really just at a design point. So we think we have the right idea. We think it's a long-term fit for the U.S. Navy, but it will take time to go through you know, all the process steps to eventually get into something in production that delivers real revenue.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Okay. God, I appreciate it. Thanks.

Operator | Conference Operator:

There are no more questions in the queue. This concludes our question and answer session. I would like to turn the conference back over to Daniel McGahn for any closing remarks.

Daniel McGahn | Chairman, President, and Chief Executive Officer:

Really excited in the company, and I hope that comes through. I think every quarter as we go and be able to put up great numbers again just bolsters our confidence, the ability to deliver products to great customers. You know, in just one year, we've moved from break-even to meaningful and consistent profitability. We're incredibly proud of that. We believe that's a strong indicator of how the business is scaling and how we're executing across our core markets. We're highly confident in our direction and look forward to building on this progress in the quarters ahead. The market is enabling extraordinary opportunities for us, and we hope to be able to talk to you about progress in future quarters on those as well. Thank you for your time and your patience with us and we'll talk to you soon.

Operator | Conference Operator:

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