NASDAQ:AMSC Q2 2026 Earnings Call Transcript

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Sagar | Conference Operator:

Good day and welcome to AMFC Second Quarter Fiscal 2026 Financial Results Conference 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 presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, Please press star then 2. Please note this event is being recorded.

John Kosiba | Senior Vice President, Chief Financial Officer and Treasurer, American Superco

I would now like to turn the conference over to Nicol Golez, Director of Communications.

Sagar | Conference Operator:

Please go ahead.

Nicol Golez | Director of Communications, American Superconductor Corporation:

Thank you, Sagar. Good morning, everyone, and welcome to American Superconductor Corporation's second quarter of fiscal year 2026 conference call. I am Nicol Golez, AMSE's Director of Communications. Joining me today are Daniel McGahn, Chairman, President and Chief Executive Officer, and John Kosiba, Senior Vice President, Chief Financial Officer and Treasurer. Yesterday, after market closed, American Superconductor issued its earnings release for the second quarter of fiscal year 2026. A copy of this release is available on the investor's page of the company's website at www.amsc.com. Remarks that management may make during today's call 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 important factors, including those set forth in the risk factors section of American Superconductors' annual report on Form 10-K for the year ended March 31st, 2026, which the company filed with the Securities and Exchange Commission on May 27th, 2026. and the company's other reports filed with the SEC, which are also 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 with 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 McGahn. Daniel?

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

Thanks, Nicol, and good morning, everyone. I'll begin today by providing an update and sharing a few remarks on our business. John Kosiba will then provide a detailed review of our financial results for the second fiscal quarter, which ended September 30, 2026, and provide guidance for the third fiscal quarter, which will end December 31, and Daniel Golez. Following our comments, we'll open up the line to questions from our analysts. We executed another quarter of strong results with revenue exceeding $90 million. This is our second consecutive quarter at this higher revenue level. Second quarter revenue marked a significant

increase of more than 40% year over year, reflecting strong execution across our grid and wind business. This strength reflects continued customer requested acceleration in projects throughout the first half of our fiscal year. And we closed the quarter with a strong balance sheet of over $100 million in cash. This quarter's revenue came from a broad mix across our core markets. More than half of revenue came from traditional and renewable energy with utility and materials projects each at nearly 20%. and military just under 10%. This diverse mix reflects the growing demand across our end markets and the reach of our technology. During the second quarter, our power solution saw excellent traction. Orders exceeded $95 million, driven primarily by traditional and renewable energy, as well as demand from our materials and utilities customers. Strong bookings pushed first half orders to about $230 million. This is more than double the year ago period. We believe this puts us in great position to keep momentum going during fiscal year 2026. Now I'll turn the call over to John Kosiba to review our financial results for the second quarter of fiscal 2026 and provide guidance for the third quarter of fiscal 2026, which will end December 31st, 2026. John?

John Kosiba | Senior Vice President, Chief Financial Officer and Treasurer, American Superco

Thanks, Daniel, and good morning, everyone. AMSC generated revenues of $94 million for the second quarter of fiscal 2026, compared to $65.9 million in the year-ago quarter. Our grid business unit accounted for 82% of total revenues, while our wind business unit accounted for 18%. Grid business unit revenues increased by 41% in the second quarter versus the year-ago quarter. The increase in revenue was driven by organic growth and the contribution from the acquisition of Comtrapa. Wind business unit revenues increased 51% over the same time period. The increase in revenues was driven by additional shipments of electrical control systems. Looking at the P&L in more detail, gross margin for the second quarter of fiscal 2026 was 28% compared to 31% in the year-ago quarter. When compared to the first quarter of fiscal 2026, gross margins improved sequentially by 190 basis points. The quarter over quarter improvement was driven primarily by higher contrapo factory utilization as they ramp up to deliver on their increased backlog. Now moving on to operating expenses, R&D and SG&A expenses for the second quarter of fiscal 2026 were 22 million compared to 17.1 million in the year-ago quarter. This increase was primarily driven by the incremental addition of Contrapo's operating expenses. Approximately 29% of R&D and SG&A expenses in the second quarter of fiscal 2026 were non-cash. We generated non-GAAP net income for the second quarter of fiscal 2026 of 9.1 million or 20 cents per share. compared to $8.9 million or $0.20 per share in the year-ago quarter. Our net income in the second quarter of fiscal 2026 was $3 million or $0.06 per share. This compares to $4.8 million or $0.11 per share in the year-ago quarter. Please see our press release issued last night for a reconciliation of GAAP to non-GAAP results. We ended the second quarter of fiscal 2026 with $181.9 million in cash, cash equivalents, and restricted cash, which compares with $218.8 million on September 30, 2025. We generated $32.7 million of operating cash flow in the second quarter of fiscal 2026. This increase in operating cash flow was the result of strong collections on several of our larger active projects. In fact, our Q1 and Q2 operating cash flow totaled $48.7 million on revenue of $188.1 million. These are record level results in working capital management. Now turn into our financial guidance for the third quarter of fiscal 2026. We expect our revenues will exceed $80 million. Our net income from that revenue is expected to exceed break even. and our non-GAAP net income is expected to exceed 7 million or 15 cents per share. I would like to remind everyone that our revenue and associated profit from quarter to quarter historically had variability based on the projects being delivered during a quarter and we'd expect this variability to continue. When you look at our results over a longer period of time, this tends to smooth out any variation. For example, AMSE's average trail in three quarters of revenue is $91.5 million, and our average trail in non-GAAP net income is $10.3 million. With that, I'll turn the call back over to Daniel.

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

Thanks, John. Our revenue results surpassed expectations again. However, it does make the third quarter challenging, as there was an acceleration of projects delivered into the second quarter. As is common in our business, timing plays a key role in quarterly results. These past two quarters benefited from accelerated deliveries, which shifted project from the next quarter. For the first half of the fiscal year, we generated more than $185 million in revenue. This is over just six months and shows our team's capacity to scale operations rapidly. This performance proves we can successfully accelerate project deliveries when our customers request them. As John highlighted, we generated more than $10 million in average quarterly non-GAAP net income over the past three quarters on approximately $90 million in revenue. In fact, since we acquired Comtrapho, AMSC has generated over $58 million in operating cash flow. We accomplished this in just three quarters. We're also seeing the strength of our offerings in North America. During our second quarter, we completed the delivery and commissioning of a customer engineered 165 MVA transmission class power transformer from Contrapo in Brazil for a major utility scale solar and energy storage project in Texas. This project demonstrates our ability to deliver complex solutions across the entire project lifecycle, from engineering and manufacturing in Brazil to international logistics, installation, and commissioning in the United States. We are ahead of schedule in accessing the North American market with Contrapo Transformers, and we're working on additional projects of a similar scale. We had initially expected deliveries into North America at the earliest in 2028, and I'm very proud of the team's ability to deliver within calendar year 2026. This success reflects the growing demand for our solutions and the opportunities we see in the North American market. We are well positioned to deliver power solutions that help utilities and energy-intensive industries access reliable power, improve grid performance, and meet growing electricity demands. Additionally, our orders demand outpaced our accelerated execution. In the first and second quarters, our average orders reached above $100 million per quarter, up from approximately $70 million per quarter last year. We are growing. We are executing with discipline and focus. And we have tremendous tailwinds at our back. These results show that we are operating ahead of schedule, driving strong business growth and setting the stage for a bright future. In the second quarter, we saw strong order demand across energy markets as well as our other core markets. about two thirds of our orders came from the energy sector with traditional energy accounting for over 40% and renewables contributing more than 25%. The rest was spread across materials and utility markets each at around 10%. This demand is supported by powerful tailwinds across multiple sectors with significant investment projected for 2026. In energy, we see several significant projects on the horizon, particularly in the US, where investment in traditional energy continues to support demand for our products. Globally, traditional energy, including oil and gas, are expected to see around $1.2 trillion in capital spending this year. Globally, renewable energy capital expenditure remains strong, with investments for the first half of 2026 exceeding $325 billion. According to the U.S. Energy Information Administration, solar is expected to account for most growth in U.S. electricity supply for 2026, supporting growth opportunities across our renewable portfolio. Projected international growth, particularly in energy, both traditional and renewables, present a layer of long-term opportunities. Investment in mining and materials creates opportunities for us, particularly at energy intensive sites where grid connections can be costly, delayed, or unreliable. The global mining project pipeline is estimated at approximately $1.2 trillion, with more than $250 billion in projects already under construction. Our solutions can help customers maintain power quality and support stable operations. specifically in the semiconductor sector, we have developed a pipeline of about $200 million of potential projects slated to be built in the coming several years. These opportunities are not currently in our backlog and could have a meaningful impact on our future growth. Although the timing of these opportunities will vary by quarter, we have recently been asked to revisit our lead times to meet an accelerated schedule over the next 12 to 24 months. Industry capital expenditures in semiconductors are projected to reach $200 billion in 2026, up 20% from 2025. Because semiconductor manufacturing requires reliable power, our sag mitigation, voltage management, and harmonic filtering solutions can uniquely help protect sensitive production processes and reduce costly disruptions. We're also seeing demand from utilities responding to rising electricity consumption and changing grid requirements, including demand associated with data centers. We delivered product to data center projects in our second quarter. We received orders for data center projects in our second quarter, and we are positioned to deliver

data center revenues in our third quarter. This is a small part of our business. U.S. utility capital spending is projected to exceed $1.2 trillion from 2026 through 2030. Utilities are evaluating our solutions to improve grid stability. Our power systems position us well to address these emerging power quality and reliability needs. In the military market, global defense spending is projected to reach nearly $3 trillion, providing a strong foundation for potential growth as naval modernization and electrification continue. These sectors represent massive long-term capital investment. We believe we are well positioned to benefit with our broad product portfolio. We closed the quarter with a strong 12-month backlog of nearly $320 million. That's a 50% increase from the year-ago quarter. In summary, we're operating ahead of schedule, driving strong business growth and paving the way for a successful future. We reached a new level of revenue and gross margins have expanded. We generated over $45 million in operating cash for the first half of the fiscal year. We had customer pull-ins that may or may not occur in the December quarter. Customers typically are not receiving much during the holiday season. We may see another acceleration in the coming quarters. We are $20 million ahead of our revenue guidance for the first half of the year. This was unexpected, but shows that we are able to deliver some product lines on shorter timelines that are contracted with customers are pushing us to deliver more rapidly. When we look at the first three quarters, our results plus the guidance given today, we're at about $20 million of revenue per quarter and having that translate into about $10 million of non-GAAP net income. This is where we've hoped to be. The business is working very well. We see a strong second half as well. What really excites me today is the rate that orders have been coming in. Our average orders per quarter have gone from $70 million last year to over $100 million this year. The business is poised to grow. And where we see that growth coming is in traditional energy, where there are significant capital investments, especially in the U.S., in energy and power. We have a substantial footprint of equipment in the Middle East that is positioned to expand once the region calms and capital is injected to expand capacity. We have equipment in the largest LNG hub and we power pipelines, areas that are poised for investment. Secondly, and perhaps more importantly, is the rampant semiconductor capacity that is underway globally. We have visibility on nearly $200 million of pipeline of orders in the sector that appears ready to be converted into orders as early as this are all in this fiscal year. That would translate into revenue next year. One of the challenges with revenue forecasting is we have a large semiconductor project that will be manufacturing in Q3, but we plan to ship in Q4. That project is too large to imagine it accelerating. This is part of the lumpiness that I hope doesn't infuse investors. We have reached a new revenue level this fiscal year and we're in position to expand beyond that as we end this fiscal year and enter into the next. We are ahead of plan in our expansion of our Brazilian transformer manufacturer into North America. We commissioned transformers for a large project in Texas. We're positioning the larger AMSC offering into many projects in both North and South America. We see a very healthy pipeline of these projects. We have a very strong balance sheet that we're looking to deploy to better serve our customers and expand our offerings. This is a wonderful time in our company's history. The hard work of our team across the globe and their commitment to excellence in serving our customers is translating into strong and healthy business. And while the elections may bring changes in policy priorities, the fundamental drivers of our business remain intact. We believe the growing electricity demand and the need for reliable power will remain a long-term priority. We're excited about the future, and we believe we are exceptionally well positioned to capitalize on the opportunities ahead. Our future-facing technologies help harmonize the world's desire for decarbonization 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 2026. Operator will now take questions from our analysts.

Sagar | Conference Operator:

Thank you. We will now begin the question and answer session. To ask a question, you may press star and then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

Conference Operator | Operator:

Your first question comes from Eric Stein with Craig Hellam.

Sagar | Conference Operator:

Please go ahead.

Eric Stine | Analyst, Craig-Hallum:

Hi, Daniel. Hi, John. Good morning.

Sagar | Conference Operator:

Good morning.

Eric Stine | Analyst, Craig-Hallum:

So great to hear about Comtrafo and some of the early... and the project, the solar project in Texas. You know, I'm just curious, how do you feel market awareness is of that acquisition and of your capabilities? You've talked about several large projects, you know, in South America, North America, et cetera. Curious if those are, you know, fiscal, potentially fiscal 27 events or should we think about those more long-term as you get out in the market with that offering?

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

I hope and I feel like customers are being positively responsive to the addition of power transformers to the product lineup. We're doing a lot of outreach to get our existing customer base to understand, to think about us more than just power quality, but also think about power supply. And that's being very well received. And as you can hear of my tone, we're being pushed by a lot of our customers to go faster. And the team has responded very well. The supply chain has responded very well. and where we can, we've tried to deliver more rapidly. Lead time for large power transformers typically are about a year. So as we get wins, hopefully they'll become larger over time. But this is all revenue, Eric, I think that we'll be able to recognize probably in 2027. We got an order for Comtrapho transformers in the US. We have a pipeline of additional projects I won't say that they're the largest projects that we have, but they're certainly larger than what Comtrafo has historically delivered. So we think we're well positioned to not only sell power transformers, but the combined offering in North and South America.

Eric Stine | Analyst, Craig-Hallum:

Got it. That's helpful. And then maybe you talked about a large semiconductor award that you expect will be a fiscal fourth quarter event. And I know you're not providing guidance for that. But any thoughts on size, that sort of thing, as we kind of think about the cadence here in the back half of the year?

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

Yeah, we've talked about the expanded offering of a combined company that's now AMSC and what we can really provide for SAG mitigation service for semiconductors. and were designed into a number of makers. And what we're being pushed now is we have a large order that was reported as part of our orders earlier this fiscal year that will deliver in the fourth quarter. That will be a pretty significant part of revenue. That puts us in a great position, we believe, for the fourth quarter. Going forward, we are working on terms and conditions of a number of projects and I don't know exactly when they're gonna close but what it sounds like is we're being asked to deal with our capacity to be able to deliver the combined offering of AMSC into these projects. So what's happening and we've telegraphed this before, the average order size is going up and these are pretty significant projects where bluntly some of the orders for some of the FABs larger than entire years of capacity in prior years. So the team's really done a really good job of getting ready and being in position to be able to deliver at a faster rate, but that's really going to be dictated by the customer and trying to understand as a contract product on what pace that's going to need to be delivered. So it's hard for me to kind of forecast, and I don't really guide that far out in time, but We'll talk about as we get those orders, Eric, to try to get a better sense for people to understand how the pace of the business is changing. But what I'm kind of standing up here saying to you is we believe the pace of the business is going to change and we're working to make sure that we can keep up. So this is a really great position right now for the company. It's something the team's really worked very hard over the past several years to put us in position to be able to win larger orders and be able to deliver them on the customer timing.

Conference Operator | Operator:

Okay, thank you.

Sagar | Conference Operator:

Thank you. Your next question comes from Colin Rush with Oppenheimer. Please go ahead.

Colin Rusch | Analyst, Oppenheimer:

Thanks so much, guys. Now that you're selling more at the platform level, can you talk a little bit about the R&D We're trying to get the combined offering not only to make installation easier,

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

but to make information more valuable for the customer. So those are kind of the two main themes that we're looking at. How do we provide an offering that ultimately provides more value for the customer by sourcing more of the product suite from us directly? We don't make or dictate customers if they have to buy a broader offering from us. If they need a piece of the solution from us, more than happy and eager and willing to be able to provide. But I think what we're going to see over time is insulation difficulties will go down, speed can go up, and the amount of information that we're able to get back in the customer's hand about how their electricity project is performing will be stronger. And those are, I think, key things that we'll be able to differentiate. The general sense to make installations easier is what we're really good at is being able to put every product, be it Comtrapho to all of our products into a small, durable, set or system or container that really works well in the key markets we're going after. Durability and speed are really paramount in most of the markets we're operating on. So those, I think, will continue to be competitive advantages, and that's where a lot of our R&D focus is. How do we make sure we can keep pace and have the durability of the product?

Colin Rusch | Analyst, Oppenheimer:

and then I guess going along a separate line, we're coming up on the end of the continuing resolution on the budget. We'll see kind of how the defense activity evolves here but could you just give us an update on some of the mine protection system activity and how we should think about that on the next couple of years if obviously you're not providing guidance but just if you've got ships that are moving through their budget process and we should think about kind of a steady cadence with those coming back to you or maybe an acceleration in that.

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

We have a lot of interest in requests for quote on the military side from all three of the applications be it protecting ships and the subset of that is the mine countermeasure part of that as well as powering shipyards and as well as powering critical ship systems. we've had a very strong influx in quotation activity from the military and what we're finding is there's a probably a surge that's going to come. It's hard for me right now because we're trying to work on lead times with some of these things on when that's going to hit. My expectation is it's not a 2027 event. It's probably a 2029 event. It could affect 2028 just from the lead times that we're seeing. Again, it's on all three applications. So certainly not things that are going to affect the next quarter or even the next year. But I think it's a long-term tailwind that we're going to see, we think, continued significant investment in not only ship protection, but really the power part of the solution set for the military. Excellent. Thanks so much, guys.

Sagar | Conference Operator:

Thank you. Your next question comes from Tim Moore with Clear Street. Please go ahead.

Tim Moore | Analyst, Clear Street:

Thanks. I appreciate it. And an impressive job on the free cash flow and the working capital management. That was nice to see. There's one thing I want to follow up on. I'm guessing maybe one of the stock isn't, you know, what it's doing today. You know, I know that the orders are lumpy and we understand your guidance and it seems like December could be a pretty good quarter too. Can you just elaborate a little bit more on kind of the pull-in maybe into the September quarter, maybe roughly how much that was? Because You'll have Comtrapa for two and a half months in this December quarter. That's maybe $10 million in revenue. I know wind has been very strong, and maybe that isn't because you did phenomenally well, almost 50% growth the last six months. Is there anything else you can maybe tell us? I'm just trying to wrap my head around the organic growth on the grid side implied by guidance for the December quarter.

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

Yeah, it's pretty much across the board. What we're seeing is the desire for our customers are trying to push us to be able to go faster than the contract at these times. So if you go back to the June quarter, I think we got it 85. We delivered almost 95, right? So you're almost 10 million up relative to where we thought the pace of the business would be in June. And then we're saying again today that happened again in September. Usually that's, you know, the next quarter, it'll be a struggle to keep pace because you might have projects that have pulled forward that you can't then backfill into the next quarter. And what happened is we had six months of this. And what I'm saying is I really don't know in December if there's going to be more of those or not. Typically in the December quarter, most of our customers celebrate holidays at the end of the year. So often the last week or two of the December quarter, there's not a lot of shipment activity. We've had projects where we've had to get one or two projects done during that week, but typically those weeks aren't as active.

And given the fact that I know we have a large project on the material side that's going to be built Q3 but delivered in Q4, that's really why the guidance is where it is. What we're trying to make sure we say is as we look at the second half, however, that in totality the second half looks very strong as well. I think the net to all this is we're going to deliver what we think is going to be on a fantastic 2026 and then we'll look at the rate that the business is bringing in orders and delivering on those orders for instance in the March quarter to try to set the tone and the pace for what we could potentially do next year.

John Kosiba | Senior Vice President, Chief Financial Officer and Treasurer, American Superco

Tim, I think the golden nugget for you to think about is the 12-month backlog went up by another 20 million and if you take our Q3 guidance and you back that out and you know our normal book and burn rate. It's indicating that we're pretty bullish about the next 12 months of the business.

Tim Moore | Analyst, Clear Street:

Okay, I understand. The other question I had was maybe for you, John. Do you run off the contract or amortization pretty much after this quarter? I know that's been a little bit of a drag on COGS. And then just a more medium-term question. I mean, this company could have really high incremental gross margins. I mean, as your revenue continues to accelerate, it seems like you can get a lot of fixed cost leverage. There's definitely some costs built in already that you might not have to add to as much or higher. Do you see an inflection point in maybe a year or two out where really incremental margins could jump up and get to the mid-30s a couple years from now? Just kind of curious about that.

John Kosiba | Senior Vice President, Chief Financial Officer and Treasurer, American Superco

Two separate questions. I'll platicate both of them. The Contrapo amortization purchase account, some does fall off after this quarter. Some of it continues through the fiscal year and then falls off into 2018. I would say it starts becoming less meaningful though. I mean, we are starting to get back to, you know, normalized gross margins. When you ask about further margin expansion, yeah, we believe that there is, you know, potential to see this business expand margins back into the 30% range for sure.

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

John's really tried to condition me to think more about the bottom line leverage because that's really where the companies, the cash leverage the company has in the bottom leverage is high. And kind of what we're saying is if right now we're at about 90 in revenue and about 10 on non-GAAP, you're at about 11%. We've talked about getting that in the low teens. That's certainly probable and predictable to happen. I think that's consistent with everybody's model already. So I'm not telling you anything that you don't already believe. but I think the certainty around that is getting higher and higher. So what we're trying to do is to get more net leverage out of the business, particularly on the non-GAAP line or the operating margin line. And that's really where we're focused on the continued improvement there. If you go back and look at the company a few years ago, we were at 15% gross margin. Now we're kind of bouncing around the high 20s, hitting 30. So we do think there is a step up but I think it'll be more dramatic on say the non-GAAP line than perhaps even the gross margin line.

Tim Moore | Analyst, Clear Street:

Understood. Thanks for that caller, John and Dan. That's it for me.

Sagar | Conference Operator:

Thank you. This concludes our question and answer session. I would like to turn the conference back over to Daniel McGahn, CEO, for any closing remarks.

Daniel McGahn | Chairman, President and Chief Executive Officer, American Superconductor C

I'm very excited about the business today and hopefully that resonates to everybody listening. Our results are ahead of our expectations pretty dramatically. Our orders are outpacing our ability to deliver even at an accelerated rate. Contrapo is way ahead of plan in North America, which is really a tribute to them and the combined effort with AMSC. And our growth has clear drivers that are there that are going to be persistent for long-term investment here over multiple years on our customers increasing their capacity and their need for more electricity from the grid. We're really in a wonderful time at this point. And I think that if people look at the results on average or over longer term trends, this business continues to get stronger. We have a pretty significant cash balance. We're going to look at how we can do more for our customers with that. And we're really, really excited about the future. I want to thank everybody for all their support, particularly their attention today. And I really look forward to being able to talk to you next time. Thank you everybody.

Sagar | Conference Operator:

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