NASDAQ:BLZE Q4 2025 Earnings Call Transcript

Generated on 11/25/2026

Operator | Conference Operator:

Please stand by. Good day, everyone. Welcome to the Backblaze fourth quarter and full year 2025 earnings call. Just a reminder, this call is being recorded. I would now like to hand the call over to Ms. Mimi Kong. Please go ahead.

Mimi Kong | Head of Investor Relations:

Thank you. Good morning and welcome to Backblaze's fourth quarter and full year 2025 earnings call. On the call with me today are Gleb Budman, co-founder, CEO, and chairperson of the board, and Mark Sweetan, chief financial officer. Today, Backblaze will discuss the financial results that were distributed earlier. Statements on this call include forward-looking statements about our future financial results, the impact of our go-to-market transformation, sales and marketing initiatives, cost savings initiatives, results from new features, the impact of price changes, our ability to compete effectively and manage our growth, and our strategy to acquire new customers, retain and expand our business with existing customers. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including those described in our risk factors that are included in our quarterly report on Form 10Q and our other financial filings. You should not rely on our forward-looking statements as predictions of future events. All forward-looking statements that we make on this call are based on assumptions and beliefs as of today, and we undertake no obligation to update them except as required by law. Our discussion today will include non-GAAP financial measures These non-GAAP measures should be considered in addition to and not as a substitute for our GAAP results. Reconciliation of GAAP to non-GAAP results may be found in our earnings release, which was furnished with our Form 8K filed today with SEC. You can also find a slide presentation related to our comments in the webcast, which will also be posted to our investor relations page after the call. Please also see our press release or presentation for definitions of additional metrics, such as NRR, growth customer retention rate, and adjusted free cash flows. And finally, we will be participating in the Citizens Technology Conference on March 2 in San Francisco. Thank you for joining us and I would now like to turn the call over to Gleb.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

Thank you, Mimi, and welcome everyone to the call. We finished 2025 with solid fourth quarter results. Revenue came in line with guidance and adjusted EBITDA margin reached 28%, doubling over the prior year. We also deliver adjusted free cash flow profitability for the first time as a public company, a major milestone demonstrating the inherent operating leverage in our business model. For the full year, total company revenue grew 14% year-over-year, with B2 cloud storage growing 26%. Today, I want to focus on three things. First, the strength and durability of our core business. Second, an update on the meaningful progress of our go-to-market transformation. And third, how we're positioning Backblaze to take advantage of the AI opportunity. Let me start with the core of our business. As data creation accelerates exponentially, Backblaze addresses a large and growing market where long-term demand for scalable, cost-effective storage compounds over time. Our business compounds within that market as we add new customers and retain them for an average of nine years. B2 net revenue retention of 111% reflects consistent expansion within our installed base, reinforcing durable, long-term growth. We've proven our ability to grow in that market, delivering an annualized growth rate of 21% since IPO. Being a cash-generating business is an important financial milestone. Year over year, we meaningfully improved profitability, demonstrating how we are building

a sustainably durable company one that can invest in growth while maintaining financial strength. Now, let me talk about our investment in growth and the progress on our go-to-market transformation. While we didn't achieve our budgeted Q4B2 growth rate, we made meaningful progress and have positioned ourselves for success. More importantly, the underlying fundamentals of the business remain stable, and the investments we've made position us for durable growth going forward. Including the highly variable growth of the large AI customer we previously mentioned, we stabilized on a baseline of around 20% B2 revenue growth in each of the last five quarters. Now we've shared our goal of moving up market. We ended the year with 168 customers generating more than $50,000 in ARR each, up 35% year on year. The ARR of this cohort increased 73% year-on-year to $26 million of ARR. We're very proud of this upmarket progress. We've also launched three key initiatives. Number one, increasing awareness. We launched Flamethrower, our startup program designed to engage high-growth companies early and establish back blades as their long-term storage infrastructure partner. Number two, driving greater pipeline consistency. We're upgrading our top of funnel systems and scaling demand generation programs to drive higher velocity sales motion. Number three, expanding revenue within our installed base. We are implementing processes to proactively identify and capture additional share of wallet across our more than 119,000 B2 customers. People are the cornerstone of our success and we continue to strengthen our leadership bench to support these initiatives. We have already hired the co-founder of an edge compute company to drive our flamethrower program, a business systems leader for our systems work and a head of customer success to build out that expansion effort. We will keep up leveling our leadership and talent. For instance, We are also in the final stages of hiring a sales development leader to drive pipeline and a revenue operations leader to drive tighter coordination and accountability across the entire go-to-market organization. Scaling into this next phase requires even greater execution discipline. To support that, Elias Mendoza joined us as strategic transformation leader. He previously served as partner and COO at private equity firm Cirrus Capital and held leadership roles at IBM and Morgan Stanley. In these roles, he's helped companies drive strong strategy to execution. Under his leadership, we also established a go-to-market advisory committee of operators who have scaled enterprise and platform businesses to a billion in revenue and beyond at companies such as Okta, Snowflake, ZoomInfo, and Carta. Their role is to bring pattern recognition, pressure test key decisions, and provide external perspective as we scale. We have made meaningful progress in our go-to-market transformation, and I'm excited about the team we're putting in place to drive it forward. Now let's talk about how we're positioning Backboys to take advantage of the massive AI opportunity ahead. We all understand there's a lot happening in AI today, but sometimes the scale is still hard to fully comprehend. I saw a report recently that capital spending on AI as a percent of GDP by just the hyperscalers in 2026 is forecast to be five times larger than the entire spend to create the U.S. interstate system. Ten times larger than the Apollo space program. AI capex spending accounted for 92% of all U.S. GDP growth. it's hard to hyperbolize AI. With AI, a big focus is who's disrupting and who's getting disrupted. We believe Backblaze is one of the disruptors, participating in this infrastructure replatforming as a storage backbone for the next wave of cloud infrastructure. So while like any major new innovation, there will be market volatility, We are firm believers in the long-term growth opportunity and are leaning into it. We're doing that with two growth vectors. Number one, on the supply side of AI, Neal Clouds and other AI tooling companies are building the platforms for AI workflows. Our opportunity is to be the storage backbone of those platforms. And number two, on the demand side of AI, Companies are using AI to build everything from anomaly detection to zonal forecasting. These companies are using and generating large data sets. Our opportunity is to be the storage of choice for their developers and use cases. And we are uniquely positioned to be the glue between these, creating a virtuous cycle. Developing a platform that can deliver massive performance with large scale data sets while providing that cost efficiently is a significant technical challenge. Backblaze has done that and AI is driving an increasing need for this technology. On the supply side, roughly 200 neoclubs have sprung up and industry estimates project that market to reach $237 billion within the next five years. These companies provide GPUs as a service, and most will need cloud storage to fully service their customers. We've already signed multiple of these multibillion-dollar neoclouds with not only six- and seven-figure deals, but our company's first eight-figure TCV deal, an over $15 million deal. And we believe all of these have material upside potential and we're in discussions with more than half a dozen others. By our estimates, NEO cloud storage for our solution alone represents a $14 billion opportunity by 2030. To further pursue our NEO cloud opportunity, this morning we

launched B2NEO, a high-performance white label storage offering specifically designed for NEO clouds. Developed in collaboration with our Neo Cloud customers, B2 Neo allows Neo Clouds to offer a top tier storage solution without the massive capital costs or years of engineering required to build a storage backend from scratch. On the demand side, the growth in AI developers is exponential. GitHub disclosed they were adding on average a new developer every second. Hundreds of AI companies countless individual AI developers already use B2. For example, one of our customers uses AI to generate audio. They just launched a year ago and already have multiple petabytes with us signing a six-figure annual deal with us. As they add new users and those users generate more audio, that data grows exponentially. Our self-serve platform where we added 12,000 customers this year alone is a great enabler for this class of AI developers who just want to get going. We launched our startup program called Flamethrower and a developer relations initiative to ensure developers are building with Backblaze. To drive our roadmap forward for the AI opportunity ahead, we strengthened our product and engineering leadership. Dan Spragans joined as SVP of engineering and Rhett Dillingham as SVP of product, bringing deep experience in AI and high-performance cloud infrastructure. We also added Russ Arts, co-founder and former head of R&D at Computer Associates as an advisor. Together, this team strengthens our ability to scale the platform for larger, more complex AI-driven deployments. We enter 2026, with a strong and growing business, a rapidly improving go-to-market motion, and a tremendous AI opportunity with a targeted B2 Neo offering and a strong product team. AI is reshaping how data is created and scaled, and storage sits at the center of that transformation. Across Neo Cloud platforms and AI native developers, we are building the foundation for the next generation of data infrastructure. Durable growth and massive AI potential are the hallmarks of our opportunity. With that, I'll turn the call over to Mark. Mark?

Mark Sweetan | Chief Financial Officer:

Thank you, Gleb, and good afternoon, everyone. We grew revenue while achieving adjusted free cash flow profitability in Q4. This is a significant milestone and an important step forward in our profitability journey. This progress was not driven by short-term cost actions, but by the inherent leverage in our operating model as revenue scales. For the quarter, total revenue was in line with guidance at $37.8 million and adjusted EBITDA exceeded the high end of our guidance by approximately 600 basis points. In the fourth quarter, B2 revenue grew 24% year-over-year, up from 22% in the prior year. This is modestly below the range that we outlined last quarter. We delivered record bookings this quarter. As Gleb noted, we closed our largest contract in the company's history with over $15 million in total contract value. We're excited about this eight-figure deal. This deal validates the product market fit at scale. We don't expect to see meaningful revenue in 2026 as we complete certain development work. In 2027, We expect this customer to contribute over 300 basis points to B2 revenue growth. This customer helped drive our RPO up 60% year over year to $66 million. In quarter B2 NRR was 111% compared to 116% in the prior quarter. The sequential decline reflects variability from the large customer that we mentioned in our past two earnings calls. Factoring out that one customer, the underlying retention and expansion trends remain stable. Moving to the income statement, Q4 gross margin was 62%, flat sequentially and up from 55% in the same period last year. Adjusted gross margin was 80% compared to 78% last year. Margins remain stable despite higher data center costs reflecting continued efficiency in our infrastructure and discipline management of our operating model. Looking ahead, we anticipate some pressure on gross margins driven by increased costs. In response, we are proactively launching a gross margin optimization initiative focused on structural improvements across pricing, packaging, and infrastructure. Our Q4 adjusted EBITDA margin was 28%, doubling year over year. The adjusted EBITDA outperformance was primarily driven by non-recurring items, including variable compensation alignment and office restructuring savings. Excluding those one-time items, adjusted EBITDA would still have been above the 22% high end of our guidance. Adjusted free cash flow was positive $4 million in the quarter, representing a margin of 11%, exceeding our outlook of being adjusted free cash flow neutral. We ended the quarter with $51 million in cash and marketable securities. Based on our current operating plan, we expect to fund our growth through operating cash flows and capital leases. We do not anticipate a need to raise additional capital. We will continue to evaluate opportunities to optimize our capital

structure over time in a disciplined manner. To improve accountability and further align management incentives with shareholders, we are shifting part of the compensation to performance-based stock units. These awards are tied to clearly defined performance objectives. Turning to our guidance for the year, our objective is to provide a clear, incredible baseline that reflects the most predictable portions of our business. While pipeline activity remains healthy, Larger customer wins and usage-driven workloads can introduce variability in timing and revenue recognition. To maintain forecast discipline, we have de-risked our outlook by excluding large swing deals and anchoring guidance on opportunities with more predictable demand characteristics. For customers with high variable usage patterns, our assumptions reflect contractual minimum commitments rather than potential upside consumption. Our outlook is therefore based on continuing expansion within our existing customer base and steady adoption of B2 across core use cases consistent with recent operating trends. We believe this approach provides a prudent and reliable foundation for the year while preserving upside as deployment timing and usage visibility improve. For the first quarter of 2026, we expect revenue to be in the range of $37.6 million to $38 million, with adjusted EBITDA margins in the range of 18 to 20%. For the full year, we expect revenue to be in the range of $156.5 million to $158.5 million. Full year adjusted EBITDA margins are expected to be 19 to 21%. We expect adjusted free cash flows to be roughly neutral for the year with normal quarterly variability. Due to the difficult comp from last year's large variable customer, we expect B2 year-over-year growth in Q2 and Q3 to be in the range of 12% to 19% and approximately 20% for the full year. To wrap up, over the past year, we made meaningful progress towards becoming a Rule of 40 company with our combined B2 revenue growth and free cash flow margin improving from 9% to 35%. As we look toward 2027 and beyond, we believe Backblaze is well positioned to grow efficiently. Our platform is already built, our infrastructure scales with discipline, and incremental revenue increasingly translates into profitability and cash generation. This capital efficient model allows us to pursue the massive AI-driven opportunity ahead while maintaining financial discipline, expanding margins over time, and building a durable, self-funding business. With that operator, let's open it up for questions.

Operator | Conference Operator:

Thank you, sir. And everyone, if you would like to ask a question, please press star 1 on your telephone keypad. Again, that is star 1 if you have a question today. We'll take the first question from Atai Kidron from Oppenheimer.

Atai Kidron | Analyst at Oppenheimer & Co.:

Hey, guys. Solid numbers, and thank you very much for the risk and the outlook for the year. It's hopefully a very smart move. Gleb, I wanted to dig, of course, into the NeoClouds and the large deal. First of all, just from a big picture standpoint, are demand patterns any different? Can you explain how your B2 NeoCloud solution, how is it different than B2? In what way are the demands different, the pricing different, the margin different? And if you could elaborate also why this deal is going to take a year before we start seeing revenue, I would appreciate that.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

Yeah, thanks, H.I. All good questions. So one thing I'll say, first of all, is our pursuit of the neoclouds is one part of the business pursuit. There are about 200 of these neoclouds. We do think it's a large number. an important opportunity for us. Just our part of the Neocloud opportunity we view as about $14 billion, so it's important. And we are really well suited for it. The hyperscalers are not the key competitors here because they are competing with the Neoclouds as opposed to being vendors for them the way that we are. So it's a good opportunity which we're well positioned for. In terms of what B2 Neo is, it is a white label offering. So B2 is generally sold directly to the end customer. B2 Neo is a white label offering that they can build in directly

into their service. It provides a lot of the same functionality that B2 provides. It's high performance, it's low cost, it's durable, it's scalable, but it also provides them the ability to manage that storage on behalf of their customers through APIs with API integration, single sign-on, et cetera. So it's really leveraging all of the technology that we've built over the last 17 or so years for the company, and then layering on top of that technology to make it simpler for them to integrate natively and make it easy for them to manage and offer that storage offer. So that's what B2Neo is. Now, in terms of why it's going to take a year for this one Neocloud provider to start seeing the benefits of it, it's a combination of work we need to do and work they need to do. So they have an existing storage offering that they're going to be switching to use B2Neo instead. And so it's basically, we have some work to do to make it so that it's even easier and more robust to automate and natively integrate for them. One thing I'd like to make clear is all the work that we're doing for them is useful for other neocloud providers and also other companies but not required for most so we have multiple neoclouds that have already signed up that don't need this work and we think that there's a large number of them that won't need any of this work but the work that we're doing is broadly useful uh for others as well okay appreciate it and then i i guess first of all the tcv 50 million that's great but can tell us the the duration of the contract and

Atai Kidron | Analyst at Oppenheimer & Co.:

Is the margin profile of this business, you know, as you ramp up the meal clouds, Gleb, is there a potential upfront cost hit to you as they ramp before margin normalizes on these businesses?

Mark Sweetan | Chief Financial Officer:

Yeah, I mean, hi, Itai, this is Mark. I can take that question. We do have to accelerate some capital expenditures, right? That would impact that and other things happening in the market would impact our gross margin by a few hundred basis points to help us prepare for this because it's obviously a large deal. We need to have the capacity in place.

Atai Kidron | Analyst at Oppenheimer & Co.:

Okay. And then lastly on computer backup, Mark, can you comment on the expectation? I mean, this business is, you know, the number of customers is now declining here. I guess, help me think about a framework for this business for 26. How should I think about the quarterly cadence and the annual cadence of this business? Is there a different long-term outlook for this?

Mark Sweetan | Chief Financial Officer:

Yeah. I mean, I'll start off by the coming year, Itai. We see this business declining 5% year over year. Currently in Q1, that's more like a minus 3% that builds up throughout the year and averages out for the end of the year at a minus 5%. Okay.

Atai Kidron | Analyst at Oppenheimer & Co.:

And long-term, is there any reaction? Should we just continue to expect this business to slowly decline?

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

What I would say on that one is we have programs that we've put in place and are putting in place to stabilize the business. We would like to get it to a place where it is flat and possibly even slowly growing. We don't think this is a fast growth business, as you know, but it would be good for it to not be a declining business. But it's a little too early for us to have confidence in those programs getting to that place. So for this point, we're estimating it at that shrinking rate, but we are putting effort into getting that to be flat to slightly growing.

Atai Kidron | Analyst at Oppenheimer & Co.:

Appreciate it. Thank you.

Operator | Conference Operator:

The next question will come from Jeff Van Re from Craig Hallam Capital Group.

Jeff Van Re | Analyst at Craig-Hallum Capital Group:

Great. Thanks for taking the questions and congrats on the free cash flow. Great to see it. A couple for me. Maybe if you could just start in terms of B2 coming into Q4, came in a bit below expectations. Just expand a bit more on what missed their And then, you know, as you're looking at the annual number, I didn't catch what you had guided it for in Q1, so if you could just fill in the gap. I think we can back into it, but maybe you could just share it. So what happened in Q4 and what do you think in Q1?

Mark Sweetan | Chief Financial Officer:

Yeah, hi, Jeff. Good to hear from you. This is Mark. So... On the Q4-25, we were expecting, when we set our guide, quite a few deals to close in November. They came in very late in the quarter, so they didn't benefit Q4. That's why we've adjusted our guidance philosophy going forward, where we said, going forward, we're going to factor out the swing deals because they're less predictable in timing of closing. So that feeds into the guide going forward. And we said for B2 year over year, it will be 20% in 2026. The ranges that we provided of 12 to 19, a lot of that has to do with the comps of that high variable customer in 2025. So Q2 would be the low end of that range, and Q3 would be about the higher end of that range. And overall, the year would average up to 20%. Does that answer your question?

Jeff Van Re | Analyst at Craig-Hallum Capital Group:

Yeah, I think it does. And so the growth is, if I do the quick math, maybe in Q1 looks like it's 9% if I have it right on year-over-year, and you're decelerating to 8% for the overall year. So it actually looks like maybe you're assuming some deceleration in the year. I'm sure there's a little bit of lumpiness from the large customer. But generally speaking, you had some pretty good momentum in sort of phase one of the sales build and build out. And it sounded like you felt like you had some early good signs on phase two, but the numbers are painting a picture of deceleration. So just help me reconcile the two.

Mark Sweetan | Chief Financial Officer:

Yeah. I mean, the deceleration that you're seeing is largely driven by that one monthly customer. If you go to slide 21 of our earnings deck and you factor out that one month, customer, you could see that it pretty much, we've been stable around the low 20s. So if you recall factory on any price increase, B2 growth rate has always been growing, but decelerating for five years, we've managed to stabilize it in the low 20s. So now with this new guidance philosophy, we're saying 20 year over year, and that includes the lumpiness that I described in Q2 and Q3. But then with all the phase two changes we're doing, Gleb could elaborate on that. That will then afterwards come drive benefits.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

I think also, Jeff, I think you were talking about the whole company, not just B2, right? And so part of what's driving that is that computer backup was growing in part due to the price increase before and it's, as Mark said, we expect it to shrink about 3%. So it's putting some downward pressure on the overall company in Q1. On the GTM transformation, I think some of the things that we look at is, you know, in terms of progress, there is progress that we're making in terms of actions, things like we've hired the VP of revenue operations, we've made material progress in moving the systems forward and expect that to be largely completed at the end of this quarter. We've gotten pretty far down the path with some sales development leaders to bring in. We've made a number of improvements. And then you can also see some of the outcomes, like the 73% growth in ARR from customers over 50K and this eight-figure deal. So I think we've made progress on the GTM side. Obviously, we all want more work to be done there.

Jeff Van Re | Analyst at Craig-Hallum Capital Group:

Great. Maybe just one last one, if I could. On the large NeoCloud win, can you just expand a bit on what the competitive landscape looked like there? Maybe the finalists, the two or three that it came down to at the end of the day, and if there were specific features, capabilities that were the deciding factors for your win there?

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

Yeah, it's interesting because this NeoCloud, they have their own storage. They started realizing from their customers that that the source that they had wasn't going to provide what they needed for this next phase of evolution. And so they started thinking about how to handle that. a number of their internal engineering and business leaders were actually familiar with Backblaze from prior roles in other places. And they knew that Backblaze had a really strong reputation for providing a great storage platform, that it was trusted. Basically, we built a moat around this idea of high performance, but predictable economics and low cost storage. And so we were the top of their list for consideration. Now, When they went and evaluated, you know, they wanted to make sure because they were going to be basically placing their brand on the line for saying, you know, they're going to use us for this underlying platform for all of their customers. So they wanted to make sure it absolutely worked. They did, you know, pretty detailed technical due diligence. and then chose us. So, you know, the why, I think, came in part because we had established a lot of credibility over many years that we are a great storage platform, and then we met their technical requirements for both performance, scale, affordability, and openness. Okay, great.

Operator | Conference Operator:

Your next question today comes from Mike Sikos from Needham.

Mike Sikos | Analyst at Needham & Company:

Hey, great. Thanks for taking the questions here, guys. If I could just come back to the gross margin comment on this expected headwind that we're up against. I guess it's a bit of a two-parter here, but when I think about the headwind we're facing this year, is that really tied to customer success initiatives or deployment in advance of recognizing revenue from this large neocloud agreement that we're talking to today, or is there potentially an ongoing presence or multi-year factor we need to consider when evaluating corporate growth margins on a go-forward basis?

Mark Sweetan | Chief Financial Officer:

Yeah. Hey, Mike, it's Mark. There's a few factors in there, right? First of all, data center cost and equipment have gone up. That combined with us needing to accelerate some CapEx does reduce our gross margin this coming year by a few hundred basis points. That's why we said we're doing that gross margin optimization initiative to look for opportunities to offset that. Now, in terms of business model, when you go after a white label, large scale solution like that, generally speaking, the gross margin will be a bit lower and the OPEX will be lower as well because you have to spend less on sales and marketing. So that's up to the same economic model for us, but that's the P&L benefit, if that makes sense.

Mike Sikos | Analyst at Needham & Company:

It does. It does. Thank you for that. And I just wanted to come back again to this de-risk guide that we're talking through here and appreciate the commentary and the prepared remarks. But just to better understand, these swing factor deals or the idea that we're only going to underwrite minimum contract commitments from customers, is that really tied to in yield clouds when thinking about those swing factor deals? Or is it maybe the move up market? Is there anything else you could provide that's creating that dynamic? And then secondly, Okay, I'll answer this one and then you can ask your next question if you want.

Mark Sweetan | Chief Financial Officer:

So moving up market, I mean, there's different sides of up markets, but when you look at the average deal size of those 168 customers, it has grown quite a bit. But I think the even larger ones, and let's call larger ones $500,000 in AR and greater They do take longer to close. So there's less predictability for us to factor that into our guide. So that's why we factored them out. Doesn't mean they won't happen. It's just harder for us to guide on them. So I think it's less around the neocloud. I mean, the neoclouds are big deals, too, and they have similar attributes, right, where you got to take longer to do the technical feasibility and make sure you went over the POCs. So that's what's driving that side of it.

Mike Sikos | Analyst at Needham & Company:

And then I guess the final follow-up on my side, but for those, let's say, half a million plus deals that you're signing, can we start bifurcating the extent to which those sales cycles are longer versus your more typical run rate business? And then final piece, but for this calendar 26 guide, is there any way you can give us some pointers as far as the NLR that you're You're thinking about when we look at this calendar 26 guide, and that's all on my side. Thank you so much.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

In terms of in terms of the bifurcating the size of the deals in the length of time, when we look at those, they certainly are longer sales cycle ones, but it's interesting because. They're not dramatically longer. So some deals, like the eight-figure deal that we talked about, that did take the better part of a year, in part because they had to look through their own systems. They had to understand what it would take to switch out to a different system, what integration that would require, et cetera. A number of the other NEO cards didn't take anywhere near that long. And many of the other larger customers, especially ones that are $50K, $100K, $200K, actually moved quite quickly. But certainly, some of the largest of those deals, they did take, call it, some of them took six months or so to close, whereas we've seen a lot of the deals close in sub-90 days.

Mark Sweetan | Chief Financial Officer:

Yeah, and then I could jump in and discuss the NRR outlook. You know, due to the lumpiness of that large customer in 25, we factored out any usage above their minimum commitment level in our guide for 26. So assuming that that's what materializes, the NRR, just like the revenue growth rate for B2 and just like the overall growth rate of the company, will be lower in Q2 and Q3. An NRR could go down to closer to 100% for one or two quarters, but our overall growth rate of 20%, which is where we should be finishing the year, and year-over-year overall, should equate to an NRR that's closer to 110%, so pretty much where we are now, plus or minus 200 to 300 basis points.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

Mike, one thing actually I'll mention also on NRR that I think I find quite exciting. We have a broad base of customers, but we're leaning in heavier to the overall AI customer type, not just the neoclubs. And we have hundreds of those customers that are using us for AI workflows specifically. we've seen a growth rate of 75% in the number of those AI customers. But one of the things that I find even more exciting is that the growth rate of those customers is about three times faster than the growth rate of our average customer. So as we sign up more of these AI customers, we see the opportunity for NRR to go up over time as well because they are generating data at a faster rate than your average customer. Thank you again. Thanks, Mary.

Operator | Conference Operator:

Up next, we'll go to Jason Ader from William Blair.

Jason Ader | Analyst at William Blair:

Thanks. Good afternoon, guys. I wanted to first ask about your comment club that most NeoClouds don't have storage. I think that's what you said. I just wanted to understand why that might be, and then also your comment that the eight-figure win was for the neoclassic did have storage, but the storage wasn't going to handle what they needed. Maybe just if you could elaborate on why they wouldn't be able to handle what their customers needed.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

Yeah, thanks, Jason. Both good questions. So with these 200 NeoClouds that have come up, they almost all started with GPUs, right? So the need that happened was for these AI use cases, they needed the GPUs first, right? The second thing that they need is they need a place to keep the data to feed these GPUs. So initially, they set up data centers. A lot of them set up data centers that were more specifically designed for

GPUs, which are very power hungry. Oftentimes, they want liquid cooled environment. They don't need nearly the square footage in the data centers that they need. They need more power in the space, et cetera. So they built these. providers focused on the GPU opportunity. What they realized then is customers who want to use the GPUs need a place to keep the data. They needed the place to keep their data to build the models, and then they need the place to keep the data when they're doing inferencing for the outputs. And so what some of them have done, many of them have not done anything on that front yet, they've just stood up the GPU side of things, but what some of them have done is said, okay, well, we can do something And they some of them have used open source projects for for to stand up their own infrastructure or some of them have set up a storage infrastructure using flash systems, the problem is what they found is you know the flash systems are incredibly expensive. to operate. And so for large scale data sets, that becomes very quickly unaffordable. The open source towing is difficult to manage. You have to have experts ongoingly working to tune it, operate it, et cetera. And they're really not designed to scale to exabyte scale. Most of those open source projects were designed for potentially handling a single enterprises scale. And so once they started seeing some movements and success, they start reaching the limitations of those projects. So the opportunity for us is that there are these 200 providers. They've built out the GPUs. They're starting to realize that they need storage. They're not going to get that from the hyperscalers for the most part because those are their direct competitors. And the solutions that they have are either really expensive, really complicated, or don't scale.

Jason Ader | Analyst at William Blair:

Gotcha. OK. And Neocloud that you announced, or they talked about the eight-figure win, can you say if that is a publicly traded company?

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

They are a publicly traded company, yeah.

Jason Ader | Analyst at William Blair:

Yeah, okay, great. And then last one for me, just, what's your confidence level that you could win additional deals like the one that you announced on the call tonight?

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

I mean, I'm very confident that we can do additional deals. The timing is obviously always uncertain, but it's not like this NeoCloud is the only NeoCloud that we have won. We've got others that are six figures and seven figures already. Those that we've already signed as six and seven figure deals, I think they themselves have the opportunity to become eight figure deals because as they roll this out to more of their customers and more scale, they're big enough that they could become eight figure deals for us themselves. And we're currently in discussions with about a half a dozen other new cloud providers that are somewhere in this same scale of, of size of organizational opportunity. So, um, you know, timing is obviously a question for us, but, uh, our ability to be a good fit for these kinds of customers and the discussions we're in, give me a lot of confidence.

Jason Ader | Analyst at William Blair:

And I may have missed it, but did you say how the duration of that?

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

A figure one was that one's a three year deal.

Jason Ader | Analyst at William Blair:

three-year deal. Okay. Thanks very much. Good luck, guys. Thank you.

Operator | Conference Operator:

Eric Martinuzzi from Lake Street Capital Partners has the next question.

Eric Martinuzzi | Analyst at Lake Street Capital Partners:

Yeah, you mentioned the revenue impact from the eight-figure transaction really doesn't start to hit until 2027. Is that based on your answer about the three-year duration and over $50 million, is that to say then that we're, you know, small amount, maybe the end of 2026 and the bulk of it split between 27 and 28?

Mark Sweetan | Chief Financial Officer:

Yeah, that's correct, Eric. And for now, honestly, we're not factoring anything into 2026 for that.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

By the way, Eric, I just want to make sure that it sounded like you said $15 million. It's $15 plus million, $1.5?

Eric Martinuzzi | Analyst at Lake Street Capital Partners:

Gotcha. Thanks for clarifying that.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

I'll look forward to a $50 million deal in the future, but we're not there just yet.

Eric Martinuzzi | Analyst at Lake Street Capital Partners:

The other thing I wanted to ask about was your comment regarding the adjusted free cash flow. You talked about it being neutral for the year, and I'm just wondering, given the investments you're making to have the infrastructure in place here, it seems like it's sort of front half loaded. Is that to suggest then that the adjusted free cash flow positive is We're Q4 for sure and potentially Q3. Is that the right way to think about it, quarter by quarter?

Mark Sweetan | Chief Financial Officer:

Yeah, Eric. I mean, generally speaking, the first half of the year is our cost base increases. It starts kicking into Q1. And our OPEX lines honestly should not be really increasing that much other than maybe around 500 basis points, not as a percent of revenue, just off the dollar baseline from last year on a non-cap basis as it relates to just basic inflation, salary raises, and so on. Other than that, we're keeping our OPEX model pretty tight. I spoke about the gross margin being set back by a few hundred basis points. So when you combine all those factors and accelerating some of the expenditures to prepare for these customers, that's why we're free cash flow neutral for 2026. It is lumpy during the year. Usually Q2 is also where we have the least of our computer backup renewals. So Q2 is usually the worst set, and the second half of the year is in better shape. And that would be a nice improvement from the minus $5 million for 2025 as a year and the minus $20 million in 2024. So I think we're pretty well set on exiting the phase of cash burn, and our aim is to stay here and get better.

Eric Martinuzzi | Analyst at Lake Street Capital Partners:

Got it. Thank you.

Operator | Conference Operator:

And everyone, just a reminder, it is Star 1 if you have a question today. Up next is Zach Cummings from B-Rally Securities.

Ethan Wydell | Analyst at B. Riley Securities (calling for Zach Cummins):

Hi there, Ethan Wydell calling in for Zach Cummins. Thank you for taking my question. I guess to start with NeoCloud and with there being a high portion of leverage there to AI and HPC, how would you define, I guess, the incremental revenue opportunity or overlap, whether it be, you know, like customer base or function or revenue opportunity versus B2 Overdrive?

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

Yeah, thanks, Stephen. It's a good question. So B2 Overdrive was initially actually developed because we heard from customers saying they wanted to use high-performance storage, high-throughput storage that would enable them to send their data to B2. the NeoClouds when they needed them or two other hyperscalers, for example. So B2 Overdrive is not a white label offering. It's designed for end customers to actually use themselves. B2 Neo is specifically designed as a white label offering for the NeoClouds to then themselves offer storage to customers. So they're largely serving different sides of the market, but both serving the needs of AI and HPC-type use cases.

Ethan Wydell | Analyst at B. Riley Securities (calling for Zach Cummins):

Understood. That's helpful. And then the large CTV deal, can you clarify whether that was from an existing customer? And generally, is the revenue upside from existing customers there based on increasing usage?

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

So the $15 million plus TCV deal is a new customer, completely new to us. However, what I would say is if you look across the million-dollar-plus deals that we've had over the last year-ish, it's roughly half-half. Half of them are net new customers to us that came in, evaluated, considered, tested, and then signed a seven-figure deal with us. And the other half are customers that started off small. Some of them started off self-serve. Some of them came in as just smaller sales deals, got familiar with the platform, liked the platform, and then expanded into seven-figure deals.

Mark Sweetan | Chief Financial Officer:

Yeah, and Ethan, this is Mark. What I would add, if you look at slide 17 of the earnings deck, it breaks down the new versus expansion from the existing. And it starts at half and half. So it's pretty well distributed because the self-serve product-led growth is about half of that as well. And then the larger direct sales customers are half. And each one is of breaks out into a half by itself of what is expansion versus new logo so it's basically that's why if you look at the stacked bar it's like four quarters uh it's pretty well diversified in terms of how it comes through got it well i appreciate the color yeah maybe maybe one other piece of color just to add in terms of um so one of the things we look at is as a as a forward leading indicator is pipeline

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

And in 2024, we generated about $15 million of pipeline. And in 2025, we roughly doubled pipeline to about $30 million. Our aim with our continued GTM transformation is to get to a run rate of about double that. So, you know, with our industry leading win rates, pipeline transfers into AR quite efficiently. And so, you know, we're not there yet, but that's, you know, we made meaningful progress in 25 and aim to make more meaningful progress on that in 2026. Understood.

Ethan Wydell | Analyst at B. Riley Securities (calling for Zach Cummins):

That's very helpful. Thank you.

Operator | Conference Operator:

The next question is from Rustam Kinga from Citizens.

Rustam Kinga | Analyst at Citizens:

Good afternoon, Mark and go ahead but congrats on the RPO acceleration just building on another question that you answered mark glad where you kind of mentioned that. B2 Overdrive versus B2 Neo are serving two different sides of the market. And, you know, as we sort of think about the build out of the pipeline for B2 Neo, is it fair to say that these opportunities are going to be anchored towards larger deals, albeit maybe not as large as this one that you've just put up in the quarter? But is it fair to say that this is kind of the larger opportunity and is that likely to sort of

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

lead to you know higher asp engagements as you look towards this opportunity yeah it's a good question so one of the ways i would look at it is the the market for the neoclouds if you take just the uh hard drive based storage opportunity inside of those 200 providers that market is estimated at about $14 billion in the next five years. So with 200 players representing $14 billion of opportunity, every single one of those deals on average is going to be a large deal. So the short answer to your question is yes. The B2Neo deals we see as large opportunity deals. The ones that we've signed so far are six and seven and now eight figure opportunities on those. Some of those I imagine may start smaller just as they start getting familiar with it. But I think all of them have the opportunity to get quite large

Rustam Kinga | Analyst at Citizens:

Great. That's helpful. And then just kind of thinking about the investment cycle for next year, is there any sort of relative color that you can share with us in terms of the level of CapEx investment that you guys are thinking about for 26?

Mark Sweetan | Chief Financial Officer:

Yeah, Ross. This is Mark with Hear From You. Our CapEx will be higher next year as a percent of revenue. When you look at our PP&E at the end of the year, it should be in that high 20s percentage of revenue. We typically finance our CapEx through capital leases and we're fully set up to do that. And that would be the principal lease payments on a statement of cash flows. which is around mid-teens of revenue, right? Because you're buying today, but financing over five years over a growing revenue base. That mid-teens, I mean, over the past few years has actually improved from our side as we continue to optimize our cost of capital.

Rustam Kinga | Analyst at Citizens:

Great. Appreciate the call. Thanks, guys.

Operator | Conference Operator:

And everyone, at this time, there are no further questions. I would like to hand the conference back to Gleb for any additional or closing remarks.

Gleb Budman | Co-founder, Chief Executive Officer & Chairperson of the Board:

Thank you. We have a strong and durable core business, made meaningful progress in our go-to-market transformation, and have a tremendous opportunity in AI. We drove growth while becoming adjusted free cash flow positive. We launched B2Neo and signed multiple Neoclouds, including this $15 million plus deal. We also launched Flamethrower, our program for high-performance startups. In just the last few days since the launch, it's exceeded expectations, growing faster than the kickoffs at other leading companies that our leader for that has driven. We've had about a dozen startups that have applied been evaluated, accepted, and given credits, including ones from Andreessen Horowitz and Y Combinator. And we've bolstered our team overall to take advantage of this tremendous opportunity. I'm really excited about the year that we have upcoming together. I want to thank our employees, our customers, and our investors for taking this journey with us. And we'll look forward to chatting with you next quarter. Thank you.

Operator | Conference Operator:

Once again, everyone, that does conclude today's conference. We would like to thank you all for your participation today. You may now disconnect.