NASDAQ:BLZE Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Hello, everyone. Thank you for joining us. And welcome to the Back Bay's second quarter 2026 financial earnings call. After today's prepared remarks, we will host a question and answer session. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. I will now hand the conference over to Mimi Kong, Director of Investor Relations. Mimi, please go ahead.

Mimi Kong | Director of Investor Relations:

Thank you, good afternoon, and welcome to Backblaze's second quarter 2026 earnings call. On the call with me today are Gleb Budman, co-founder, CEO, and chairperson of the board, and Marc Suidan, 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 sales and marketing initiatives, cost savings initiatives, results from new features, the impact of price changes, Supply volatility and pricing, 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 most recent quarterly report on Form 10-Q and our other financial filings. 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 8-K filed today with the SEC. We 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 a presentation for definitions of additional metrics such as NRR, gross customer retention rate, and adjusted free cash flows. And finally, we will be hosting an investor day on Wednesday, September 9th in New York City. Please reach out to ir at backblaze.com to RSVP for the in-person event. Thank you, Mimi. And thank you, everyone, for joining us today. We had a fantastic second quarter. Revenue came in at $42.7 million, $2.5 million above the high end of our guidance range.

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

Adjusted EBITDA margin was 30%, 700 basis points above the high end of our guidance range. and B2 Growth accelerated to 34% year-over-year. These results reflect broad momentum across the business. We also signed the largest contract in BackWiz's history, a $335 million multi-year agreement with CoreWeave, which I'll come back to in a moment. We continued to move upmarket and ended the quarter with 235 customers contributing more than $50,000 each in ARR, up 57% year over year. ARR from this cohort grew 67% year over year. We signed numerous AI companies, including a leading frontier model developer, introduced the ability to run our cloud storage in customer-owned data centers, to support regional and sovereign workloads, and expanded our AI startup outreach and agentic developer tooling. This quarter's results are proof that our AI strategy is working. The decision to lean into AI is translating directly into the financial performance you just heard and into the momentum I'll walk you through now. To understand our strategy, consider this. Every training data set, checkpoint, inference output, and Gen AI asset has to be stored and used. Customers consistently tell us they have three needs to support that. Number one, the ability to scale with fast-growing data. Number two, architectural freedom to use their cloud of choice. And number three, storage performance that optimizes their AI workloads. And all of that needs to be affordable so that AI scales efficiently. The combination of those three requirements are why they choose Backblaze. Let's talk first about how that plays out with neoclouds and inferencing clouds. Many of these initially focused on GPUs as a service, but quickly recognized that their customers also needed storage. Some of them began by building Flash-based storage tiers to support high-performance workloads. However, as data scaled and Flash prices spiked, it became clear that Flash storage should only be used where it's necessary. As NeoClouds scale, they need a more complete storage stack. Flash were maximum performances required and a hard drive-based capacity tier for everything else. With five exabytes of storage and almost two decades of technical optimization, we believe Backblaze has built the most efficient hard drive-based capacity storage platform available. And Neoclouds, wanting to get performant scale efficiently, are choosing Backblaze. We estimate that this neocloud demand for capacity tier storage represents a $14 billion market opportunity by 2031. Our strategic agreement with Coreweave, a more than five-year, multi-exabyte deal, and the largest contract in Backblaze's history, is the clearest proof this quarter that Backblaze can be the capacity tier for AI infrastructure. CoreWeave is recognized as the essential cloud for AI and runs many of the most demanding AI workloads in the world. As its platform expands, it is adding a variety of storage tiers that can scale rapidly and perform reliably and efficiently at massive scale. CoreWeave evaluated the available options and chose Backblaze for the software platform and operating expertise We have developed for years of managing large scale hard drive based storage infrastructure. CoreWeave is now the fourth major AI cloud infrastructure company to contract with Backblaze, and we're in conversations with many of the leading other ones. As these AI infrastructure companies scale to broaden support of their workloads, we become increasingly relevant to them. Part of the CoreWeave agreement also introduces a new way for us to deliver that value. For Backblaze, this managed storage approach represents a capital light service model that brings our technology and operating expertise directly into a customer's infrastructure. This approach expands our opportunity to service customers in their regional data centers and sovereign cloud needs. Now, beyond AI infrastructure companies and to the broader AI market, We continue to see strong traction with AI-native companies like HeyGen, Hume AI, Mirage, and many more. And this quarter, we continue to add to that list. AI companies are choosing backblaze for our ability to scale fast. Last quarter, we highlighted a training data provider that signed a nearly $1 million deal in just 11 days. Less than a quarter later, as its business grew faster than expected, it added another $1 million commitment. AI customers also choose Backvoiz for architectural freedom. It used to be that companies were OK just building inside one cloud. But AI technology is evolving rapidly. AI native builders are choosing from an increasingly fragmented set of cloud infrastructure. That requires the ability to use and move data to whichever hyperscaler, neocloud, inferencing cloud, or other AI infrastructure they need. Backblaze enables that through a combination of free egress, high performance throughput, and optimized networking between us and these clouds. The need for architectural freedom resulted in a six-figure deal with a customer building conversational AI models They needed a cloud-agnostic home for their training data. Expensive egress fees from their prior provider kept their data captive and limited what they could achieve. With Backblaze, they were then able to freely move their data to whatever cloud they wanted without the headache of calculating and worrying if egress fees will break them. And AI companies choose Backblaze for performance. We signed our largest and B2 Overdrive deal to date, a seven-figure ARR deal with a frontier AI model developer. At the scale of data they work with, performance is critical and B2 delivers high throughput at efficient price points. Together, scale, architectural freedom and performance, all at an affordable price, are why AI companies are choosing Backblaze. And while AI is making this need especially urgent, it extends to nearly every company using storage at scale. In addition to making great strides moving up market, we also know the biggest companies start small and we're building for them. Our technology advantage is one part of how we are strengthening our position. We're also working to make Backblaze the natural platform for developers and their AI agents to build on. This quarter, we shipped our SDK for TypeScript, the emerging language of choice for AI coding agents, released GenBlaze, a generative media SDK, and built out a new set of tools after seeing developers turn to B2 to store their AI agent data. We also launched our multimodal-focused generative media hackathon, which drove awareness of B2 as the storage layer for Gen AI applications. In closing, we exceeded our financial expectations, announced the largest agreement in our history, and delivered new wins and expansions across the AI market, including our largest overdrive deal to date. We also introduced a new managed storage approach that brings our software and operating expertise into customer-owned infrastructure. But the bigger point is this. When AI scales, data grows, and that is good for us. When companies look to control AI costs, they come to us for that too. Growth or discipline, either way, we are well-positioned to benefit and continue building a durable growth business. With that, I'll turn it over to Marc.

Marc Suidan | Chief Financial Officer:

Thanks, Gleb, and good afternoon, everyone. Q2 was a pivotal quarter, reflecting both strong operating results and the significance of our strategic relationship with CoreWeave. Revenue was $42.7 million, up 18% year-over-year and representing our strongest growth in six quarters. Adjusted EBITDA nearly doubled year-over-year to $13 million, with the margin expanding by 1,200 basis points to 30%. Both results exceeded the high end of our guidance. These results demonstrate the benefits of our strategy. Based on our Q2 performance and outlook for the remainder of the year, we are raising full-year guidance again. Turning to revenue, B2 accelerated to 34% year-over-year, our strongest growth rate in seven quarters. B2's strong performance was broad-based with almost every route to market and GTM lever over-performing, with strong performance in direct sales bookings, continued self-service momentum, and increased usage from larger customers. We also signed larger and longer-duration commitments, increasing RPO. The price increase implemented on May 1st contributed about 8 percentage points in B2 growth. While churn from the price increase was anticipated, it did not materialize. Excluding that impact, underlying growth continues to show strength. Sequential B2AR increased by $20 million, of which the price increase drove $9 of the $20 million. B2AR reached $113 million, an increase of 39% year-over-year. B2 net revenue retention was 113% compared to 114% last year. We also continued to make progress upmarket. customers contributing more than $50,000 in ARR increased 57% the over year to $235,000, and we closed four deals valued at over $500,000 this quarter, including three AI-related wins. That progress is also showing up in the size and duration of customer commitments. We added approximately $320 million in RPO during the quarter, including $313 million from CoreWeave, net of the $22 million in warrant values. This increase provides greater visibility into contracted demand as more customers enter into multi-year agreements with committed minimum spend. We retain additional upside as usage above those minimums is built on a consumptive basis. Computer backup revenue declined 2% year-over-year, better than expected, as churn initiatives and targeted customer acquisitions help stabilize performance. The business continues to generate recurring revenue and cash flow, and our focus remains on retention, operating efficiency, and margin improvement over time. Moving on to total company gross margin, it was 63% in Q2, benefiting from the B2 price increase and continued operating efficiency, partially offset by higher hardware infrastructure costs. Operating expenses increased 6% year-over-year, well below revenue growth. As a percentage of revenue, operating expenses improved by 800 basis points to 73%, demonstrating continued operating leverage. We expect to make targeted investments in R&D while continuing to reduce operating expenses as a percentage of revenue. That operating leverage also translated into an adjusted free cash flow margin of 8% for the quarter, even as we continue to invest in infrastructure for 2027's committed demand. We ended the quarter with $50 million in cash and marketable securities, up from $45 million in the prior quarter. We also increased our available and unused capital lease lines to over $150 million. While our new lease lines are generally at lower interest rates, we will continue to look for ways to optimize our cost of capital. Before turning to guidance, I want to note that we filed an S3 today to register the warrants issued to CoreWeave in connection with our agreement. The warrants reflect the strategic and mutually beneficial nature of the relationship and align both companies along the long-term success of the agreement. Moving on to guidance. For Q3, we expect revenue to be in the range of $44.4 million to $44.8 million. We expect adjusted EBITDA margin to be in the range of 27% to 29%. For the full year, we are raising revenue guidance to a range of $172 million to $174 million up more than $10 million from our prior range of $161.5 million to $163.5 million. At the midpoint, this revised guidance represents approximately 19% in overall year-over-year growth, up from the previous 11%. Consistent with our guidance philosophy, the RAISE outlook reflects Q2 actuals and greater visibility from contracted demand. Our guidance excludes variable usage above contracted minimums and potential deals greater than $500,000. We are also raising our full-year adjusted EBITDA margin outlook to 27% to 29% from

23% to 25%. Looking ahead to 2027, based on the B2 underlying business fundamentals, CoreWeave's minimum RAB, and the previously announced $15 million-plus TCV deal, We expect B2 revenue to grow over 40% year-over-year. This is early directional commentary, not formal guidance. We will provide our full 2027 outlook in February. But we wanted to give investors visibility into the contracted demand already supporting growth beyond this year. Turning to capital investments, we are accelerating CapEx in the second half of 2026 and into 2027 to build the required capacity to support signed customer commitments. Using capital leases, we expect to be adjusted free cash flow neutral for the full year despite the increase in CapEx. Our CapEx track record demonstrates how we make use of these assets for well over six years and deliver healthy gross margins. Our CapEx breakeven is less than 24 months. Moreover, the managed storage portion of the CoreWeave agreement is delivered on customer-owned hardware, so we have no CapEx requirements for the managed service. B2 revenue growth accelerated, Larger customers continued to expand, and contracted demand increased our visibility. On a rule of 40 basis, we are proud of achieving a combined B2 revenue growth and adjusted free cash flow margin of approximately 42, up from 18 a year ago. We entered 2026 with a clear objective, demonstrate that our business can grow efficiently and generate profitable operating leverage. Q2 showed clear progress against that objective. With that, operator, please open it up for questions.

Operator | Conference Operator:

We will now begin the question and answer session. Please limit yourself to one question and one follow up. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. We ask that you pick up your handset when asking a question to allow for optimum sound quality. If you are muted locally, please remember to unmute your device. Please stand by while we compile the Q&A roster. Your first question comes from the line of Mike Sikos with NeedHEM. Mike, your line is now open. Please go ahead.

Mike Sikos | Analyst at Needham & Company:

Great. Thank you to the team for the question here. Congratulations on the quarter. Marc, I was hoping to start with you on this outlook here. and really just trying to get a better sense. Obviously, you have this large deal with CoreWeave that you had announced and congratulations again on getting that over the finish line and the sheer size of it. Can you help us think about to what degree the improved calendar 26 outlook is tied to the ramp for the minimum commitments from that contract or anything on the calendar 27 to support that 40% plus outlook we're putting out there for B2Cloud?

Marc Suidan | Chief Financial Officer:

Yeah, sure, Mike.

Mike Sikos | Analyst at Needham & Company:

Can you hear me fine? Yes, I can. Thank you.

Marc Suidan | Chief Financial Officer:

Okay. Yeah. So as it relates to, you know, the second half of 26, the $10.5 million raise is benefiting from a broad base of things, the business performing better, the Q2B of $2.7 million, the price increase. and Cor Weave Ram. None of them have a dominant role in that. It's a healthy mix of all that. And just a reminder, you know, the way we guide is remaining consistent, which is we're sticking to, you know, contracted minimum spend by customers, nothing over that. And, you know, given the large deal, even though we just won for greater than half a million, We're still not projecting more per quarter, just so we stay consistent in that approach. And that continues through 2027 as well. And with that, I would say D2 should be well on track to grow at 40% or higher during the rest of this year in 2027. On your other part of the question, which is the ramp, it does ramp over the core, which basically does ramp over the coming year. does ramp over the coming year and hits their minimum about mid-2027. And that's what we've got baked into these numbers.

Mike Sikos | Analyst at Needham & Company:

I see. Thank you. Thank you for that. And maybe a question for Gleb. Gleb, obviously, you guys have made some pretty significant changes to the go-to-market in the last year. And I know we're starting to see that specifically in E2 on the NRR front, or I remember last quarter you guys were talking about pipelines from existing customers. You also have the new CRO in place now for call it a quarter or so. Can you just give us a status update on where we are with that go-to-market transformation? I guess, what are the findings for today versus 90 days ago? Thank you again.

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

Yeah, thanks, Mike. So as you mentioned, we've been undergoing the GTM transformation. Anuj joined as our new CRO. He's been doing a great job as he's coming on board. We've also had a broader people, processes, systems rework. So in addition to Anuj, we have a new sales development leader and a head of RevOps and some of the other leadership functions, a head of operational strategy. under him that he's worked with before. So we've brought up, I think, the team in terms of the GTM side. We also, as you know, we're undergoing a big systems effort. A lot of that is done. We are still continuing to invest, especially with some of the AI technologies that are out there. So we're leaning in on some of those. I think one thing that We look at is, you know, obviously we're excited about the CoreWeave deal, but for as far as the GTM side of things, you know, we have we we have almost fifty five zero more customers that are in the $50,000 plus ARR group than we did last quarter. And that's almost as many or about as many as we add in a year historically. And so I think that that more broad-based repeatability is a good sign that the GTM is working. Now, obviously, I expect that that'll fluctuate up and down, but the general direction, I think, of that execution is showing up.

Mike Sikos | Analyst at Needham & Company:

Excellent. Thank you so much. Thanks, Mike.

Operator | Conference Operator:

Your next question comes from the line of Itai Kedron with Oppenheimer & Co. Your line is open. Please go ahead.

Itai Kedron | Analyst at Oppenheimer & Co.:

Thanks, guys. Congrats again. Great numbers. Great to see the acceleration. Gleb, I guess I have a little bit more of a bigger picture here. You know, the announcement of CoreWeave clearly is quite unique, I guess, in its size and its messaging. I'm kind of wondering, like I hear your point on the growth in the $50,000 accounts, but if you try to look at the and AI Cohort specifically. Does the deal with CoreWeave, does it generate more interest from customers or less? I'm kind of wondering if customers view that relationship as something that potentially ties you perhaps too closely to CoreWeave for people to do business with you. How do you think about that?

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

Yeah, thanks, Itay. So the announcement with CoreWeave has been great. I mean, first of all, I would say the CoreWeave team has been great to work with. but also the announcement has helped, I think, elevate Backwise as a key player in the AI infrastructure stack. I went to this AI infrastructure conference in Europe, I think about a month and a half ago, and I'll just say that the conversations that I had were consistently, hey, we're excited by this deal that you did, We may not be as big as Coreweave, but this seems very relevant to us, very applicable. Can we talk to you about it? How can we leverage your technology to do the same? We're starting to see storage as a key need for us. So I think obviously We provide a platform for a variety of customers, both in the neocloud and AI infrastructure space, and also to the AI natives themselves. So we have lots of startups and developers and larger size direct AI companies that see the CoreWeave deal and see that it's a stamp of validation. on the AI infrastructure side. They're certainly competitors to them, but it's a big market, it's a growing market, and a lot of people are trying to figure out how best to solve it. The other thing I'll just mention is we introduced this managed service approach or managed storage approach. So we do that for CoreWeave, but we're also doing that as an offering for others. And a number of the conversations that we're now having with these other AI infrastructure companies is them being interested not only in us providing infrastructure ourselves for them, but also providing this managed storage in their data centers and their sovereign cloud environments.

Itai Kedron | Analyst at Oppenheimer & Co.:

That's great. Great to hear. And you kind of set me up for the next one, I guess. On this topic of managed storage, when you look at your Pipeline. I know clearly part of core, this was part of the core transaction as well. But when you look at your pipeline, we look at the conversations that you're having with customers. Is this common that people are looking for this or this is going to be more the exception rather than the rule? And then also when you talk about the two wins, for example, you have this score that you highlighted, a conversational AI company with six figures and the frontier model company with seven figures. Is there a way for you to have insights into their business to understand how much more opportunity you have within those organizations to kind of expand your use cases with them?

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

Yeah, so in terms of the managed storage side, it's obviously early, right? That's the newer approach that we're offering. What I will say is that in the past, we've had prospects that have come to us and expressed interest in us doing that. And in the past, we haven't done it. But with CoreWeave, we're doing this in partnership with them and offering it out to the broader market. And so we're having conversations now. I would say there's probably half a dozen of these managed storage conversations that were fairly actively in discussions around the You know, this is not going to be every customer doing this, in part because it requires a fair level of sophistication on the customer side, and it requires a fair amount of scale to make it worth doing. But for the larger AI infrastructure organizations, and even frankly, not just AI, but you know, anybody who needs large scale capacity storage, I think that the managed storage is a good approach. So I think we'll see a number of those. It's not going to be the predominant number on a volume basis, but I think that those will be larger opportunities.

Marc Suidan | Chief Financial Officer:

I'll add to, I mean, if you want to jump in, Gleb, on a second question, whether we have visibility. I'll let Gleb answer on how much visibility we see into the large type of customers. But generally speaking, what we notice in Q2 is a lot of our We said four deals greater than half a million. A lot of those were expansions. So we're seeing their appetite and needs. We said that before that AI companies generally grow a lot faster in their data appetite. And so we're seeing that profess itself. Yeah.

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

And maybe just the one thing to that is, I mean, in the world that we were in, at IPO, we were almost entirely self-serving. So we had very little forward insight into what was happening with the customers because they would just sign up and pay on a consumption basis. Now, as we're heavily investing in the sales-led side of the business and working with these larger opportunities, the team is actually actively in discussions with them, working around what their needs are, what their plans are, and kind of co-planning together. So we do have

Operator | Conference Operator:

Your next question comes from the line of Jason Adder with William Blair. Jason, your line is open. Please go ahead.

Jason Adder | Analyst at William Blair & Company:

Yeah, thanks. Good afternoon, guys. First question, just on the CoreWeave deal, could you give us a sense of what the gross margins are going to look like relative to your traditional B2 business?

Marc Suidan | Chief Financial Officer:

Yeah. Hi, Jason. This is Marc. For our gross margin, I mean, for the time being, we're pricing everything on all deals to keep it in and around where it is. So even with Corweave, despite the lot of scale, there shouldn't be that much detriment to the current 63%. What I would say is between the CoreWeave deal, the previous deal, the $15 million plus DCV deal, all these committed contracts we're signing up, it does increase our CapEx needs. And so our CapEx for the year will be between 55% and 65% of revenue. And the reason why I mentioned that is we're putting a lot of CapEx out, so depreciation will start, and then we'll start wrapping up the customers in terms of that revenue spend. So that two quarters or so before they get ramped on that capacity, you'll have more depreciation. So there could be a few hundred basis coins set back to our gross margin. But then it should recover after that.

Jason Adder | Analyst at William Blair & Company:

Gotcha. And then if over time you end up doing more of the managed storage option with Corweave, I'd imagine that would be a significant boost. to the gross margin.

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

I think both of those are currently similar-ish in gross margin, although as we think about our capital light approach with the managed storage overall, we think that that certainly has the possibility of being a higher margin offering over the longer term.

Jason Adder | Analyst at William Blair & Company:

Okay. Maybe I'm not clear. I thought you were just selling software there. What are you selling there in the managed storage approach if it's delivered on their hardware?

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

Yeah, good question. It's a managed storage offering. So the way that it works is they provide us the data center space. They provide us how much storage they would like. We provide the bill of materials. They buy the equipment. They hand it to us. But it's actually our people in that part of the data center, which is cordoned off for our purposes. But it's our people racking, stacking, managing with our software that part of the storage stack. So, you know, Core, we will have multiple parts of their storage stack. We'll have the part that we're managing, but they will own the equipment. We will have the people.

Jason Adder | Analyst at William Blair & Company:

Gotcha. Okay. So the main cost for you is people in that scenario.

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

Exactly.

Jason Adder | Analyst at William Blair & Company:

Okay. All right, and then one last question for me, for Marc, and for Gleb. I guess just as we think about going forward and the coral reef situation, the CapEx needs that you're going to have over the next few years, what are you contemplating in terms of capital needs? Do you have enough capital today to be able to meet the needs of this build-out, or are you going to have to raise more capital?

Marc Suidan | Chief Financial Officer:

Yeah, Jason, I'd say between our cash balance and we have over $150 million of available capital lease lines and our operating cash flows have become really healthy due to operating leverage. So between all of those three things, we're well set now to do it the way we're doing it via capital lease lines. I mean, we're always going to evaluate all options and see what's best for shareholders. But we're set to proceed as is now.

Jason Adder | Analyst at William Blair & Company:

Okay. Thank you. Good luck. Thanks, Jason.

Operator | Conference Operator:

Your next question comes from the line of Jeff Van Ree with Craig Hallam Capital Group. Jeff, your line is open. Please go ahead.

Jeff Van Ree | Analyst at Craig Hallum Capital Group:

Great. Thanks. Thanks for taking the questions. Congrats, guys. Just breadth. Really impressive to hear what you guys did. Maybe spend a second on the frontier model and the win there. I'd love to hear a bit more color competition, maybe a little more particulars around use case, duration of deal, and then I think you just said seven figures. I mean, any sense you can dial that in a bit? Are we talking mid-single digit, seven figures, upper, lower? Yeah, color around the frontier model would be great.

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

Yeah, thanks, Jeff. Good to chat with you. So what I'll say is that This one, similar to some of the others, right? I mean, the pattern is the same, but I'll talk to this one, which is they have storage that they use and the data sets that they use to build their models that they were having a couple issues. One was that the level of data that they were, the size of the data increasing, they were actually hitting quota ceilings. So the cloud provider that they were working with They were having trouble providing them the amount of storage that they needed. So they were actually hitting certain ceilings there. They also had performance requirements. So the need to move that data at high throughput over to places where they would be building the models themselves. And so between those two things, They needed both the ability to scale and they needed the performance of B2 Overdrive. And so they were on another cloud provider previously. So they were familiar with, obviously, the model. They switched to us. The other thing I'll say is, like the other use cases that we've always said, they're not running The GPU model training directly off of the data on back boys. They're using it back boys as the place to store the big data set, the capacity tier data set, and then they're moving it when they're ready to actually do a training run. They're moving it to the flash tier next to the GPUs, but they're keeping it long term and at scale on back boys. The other thing I would say is the pricing is B2 overdrive pricing, so it's higher than what you see as a 695 price for the self-serve business on the website. And maybe the last thing to say there is it was a large commitment from the outset, but it was also what they referred to as an opening commitment and a building block to start from. but one that they expect to actually expand significantly.

Jeff Van Ree | Analyst at Craig Hallum Capital Group:

Yeah, I would think so. And then maybe just to follow up back to the managed storage offering. So when you're selling to a neoclide or one of these larger AI players, what is the delta between when they want the managed offering versus a white label offering? I mean, I understand there's sort of some geo, you know, data sovereignty issues. A lot of things probably come into the play, but like why one over the other, traditional P2 versus managed storage?

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

Yeah, the main reasons why, you know, most people want us to take care of it on our own infrastructure. And the reason for that is because it's fully taken care of, right? They don't have to worry about it. They don't have to think about it. And even for neoclubs, the neoclubs obviously, you know, range in The level of sophistication and their level of ability to operate a full platform. You have CoreWeave on one extreme of a company that is very, very good at managing the whole infrastructure and technology and stack and everything else. And you have others who are just brand new. They have data centers, they have GPUs, but they're still building out all the other pieces. for many of them, they prefer to just have us fully take care of it. The managed storage side comes into play when they want to have the physical data in their own data centers. And that that has sometimes the conversation has come up because they have data centers in regions that we aren't. And so they would like the data there sometimes because they have a sense of they would like a more sovereign experience. with their data. And then for some of them, the conversation has simply been that they would like to actually own the assets on their balance sheet. So those have been kind of the reasons why they go one way or the other.

Jeff Van Ree | Analyst at Craig Hallum Capital Group:

Great. Okay. I'll leave it there. Thanks so much. Congrats.

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

Thanks, Jeff.

Operator | Conference Operator:

Your next question comes from the line of Eric Seppager with B. Reilly Securities. Eric, your line is now open. Please go ahead.

Eric Seppager | Analyst at B. Riley Securities:

Yeah, thanks. Thanks for taking the question, and congrats. Great quarter. A couple questions. One, just on the go-to-market, have you hired most of the executives across the go-to-market team that you need at this point? And then secondly, I think you talked about the core weave business reaching a minimum level, meeting the minimum commitment level in mid-27. Does that mean that we can assume that you're kind of at the one-fifth of the $335 million, which is about $65 million run rate? Does that imply that you're reaching about a $65 million run rate by mid-27 on that core weave agreement?

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

Yeah, thanks Eric. So on the GTM side, yes, we've hired the chief revenue officer, we've hired the head of sales development, head of robots, we've got the head of customer success, you know, we've got the head of GTM strategy operations. So we are, you know, obviously there may always be additional folks, but we are in practice, I would say we're, you know, we've got the team in place. And, you know, one thing I'll mention too is I think, you know, when I was reflecting earlier on kind of our journey, I guess. You were with us when we went public. And so you remember that when we went public, our average customer was a self-serve customer that paid us less than $500 a year. And we said, our goal is to move up market, become more of this core infrastructure for startups, for companies, for enterprises, and we started signing companies that were paying us tens of thousands, 50,000. At some point, we signed our first million dollar deal. Then we started highlighting roughly a $1 million deal per quarter. Then we had our $15 million deal that we announced in February and then this $335 million deal that we just announced. So obviously, it was quite a journey to go from a primarily self-serve company doing mostly less than $500 a year deals to a company that is able to service million, 10 million and multi hundred million dollar deals. But I feel like we're now in a great place with a great team and processes and systems to go and execute against this opportunity.

Marc Suidan | Chief Financial Officer:

Yeah. And on the second question, Eric, let me dive into the second question. The CoreWeave deal has two components. As you know, there's working off of our platform. That's one component. And that was all disclosed in the June 23 deal. And then there's the managed service component. So roughly speaking, it's like almost a 70-30 split. So when I said we would reach the minimum, it relates to that 70%, not the 30. The 30 would come afterwards. because the managed service has a different kind of ramp. And then the other thing to keep in mind is the warrants are a contract revenue. So that's why you shouldn't take just a 335 times 70. You also have to deduct the $22 million value of warrants.

Eric Seppager | Analyst at B. Riley Securities:

Can you just expand on that? You deduct the $22 million for the warrants. Is that across the five years? Is that a straight up division?

Marc Suidan | Chief Financial Officer:

Yeah, exactly. So the warrants just, they follow the revenue. So there's five years for both components of the deal. So if you take that 70% of the $313 million, which is net of the warrants, that one ramps up over the first 12 months. And then once it, after 12 months, then it starts operating at that minimum.

Eric Seppager | Analyst at B. Riley Securities:

Okay, perfect. Thank you very much and congratulations.

Marc Suidan | Chief Financial Officer:

Thank you.

Operator | Conference Operator:

Your next question comes from the line of Eric Martinuzzi with Lake Street Capital Markets. Eric, your line is now open. Please go ahead.

Eric Martinuzzi | Analyst at Lake Street Capital Markets:

I wanted to revisit the upward revision to the 2026 guidance. The way I understood it, Mark, you talked about three reasons for the upward revision, and they were all kind of equally weighted. The business outperformance to date, and the price increase and the CoreWeave ramp. The business outperformance, is that primarily going to be those four greater than 500,000 ARR transactions?

Marc Suidan | Chief Financial Officer:

Yeah, Eric, it includes that, but it also includes the self-serve product-led growth. We did that price increase on May 1st, so we anticipated some churn. We really haven't seen any churn. In fact, what we've seen is an acceleration of people signing up and the ARPU per sign up is higher. So we're yeah, so I think I think we're seeing, you know, good, good momentum on almost all route to markets and all go to market levers. So it's not it's pretty broad based. And Gleb mentioned the the 50 customers that went over 50,000 in ARR. You can see our RPO every quarter goes up. We're getting customers committing into either one year or multi-year contracts. So it's broad-based, the general business health. So we're seeing really healthy acceleration.

Eric Martinuzzi | Analyst at Lake Street Capital Markets:

And then on the CVU, I think you said last quarter that you were expecting it down What was it, 3% or so, or low single digits? Is there any change to that expectation for the year in the new forecast?

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

Yeah, that business is kind of like we talked about, Eric. It's a good business. People like it. The customers like the experience. It's cash flow generating and helps fund some of the B2 growth. But it's an area that we're spending some time and some investment on, but it's still a business that has overall market headwinds. And so we still think it's kind of single digit declines. It did perform better this quarter than expected by a little bit. And that was in part because I think we've been doing some efforts on trend mitigation and customer acquisition, but it is still likely kind of a Single Digits Declining Business.

Eric Martinuzzi | Analyst at Lake Street Capital Markets:

Got it. Thanks for taking my question.

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

Thank you.

Operator | Conference Operator:

Your next question comes from the line of Rustem Kanga with Citizens. Rustem, your line is now open. Please go ahead.

Rustem Kanga | Analyst at Citizens:

Great. Thanks, Marc, and glad for taking the question. Great to see the sustaining momentum here. My question is just around CoreWeave. Can you help frame the extent to which That recent win is helping accelerate discussions with other neocloud providers evaluating HDD-based storage tiers. And are you finding that the best conversations are those who have already experienced challenges with the costly slash storage approach? Or is it better or more effective to cut them off at the pass and approach those who are even yet to begin a DIY approach?

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

It's a good question, Russ, and I'll tell you, it was actually counterintuitive for us. When we went down this path and, you know, we saw that this was going to be an opportunity, you know, about a year and a half ago, right? We launched B2 Overdrive, we launched B2 Neo, you know, we leaned into this idea that the Neo clouds were going to need and AI infrastructure companies were going to need a capacity layer for storage. Our assumption at the time was that the best path would be to go after those that did not have storage yet. What we've found is that, generally speaking, the more engaged conversations are from those that do. And the reason for that, it seems, is those that have storage are feeling the pain of only having the flash-based storage or trying to do it themselves, meaning they have customers coming to them expecting them to be able to service them, but struggling with dealing with the scale or the expense of those things. The ones that don't have storage yet, their customers are going somewhere else for those workflows. And so they're missing out on those workflows and they're not feeling the need for them yet. But as they start having those conversations with customers where they're talking to them about servicing their broader need, then they're also starting to feel that demand. So I think the short of it is that the neoclaws are generally heading down the path where they're going to need this capacity of tier of storage. They also will need the flash-based tier of storage. I don't see it as an either or. I think they need both as part of servicing their customers. and were a great solution for the capacity tier.

Rustem Kanga | Analyst at Citizens:

Perfect. Thanks. And then, Marc, you gave the caller on the CapEx of 55 to 65% of revenues. Was that comment more for the back half of this year or do you expect that to hold through 2027? Just help us think about if it would ramp from that level or if that comment was applying to this year and next year.

Marc Suidan | Chief Financial Officer:

Yeah, Russ. That's for this year. That's for 2026. Too early to give 2027, frankly, mainly because the prices of this hardware changes pretty quickly. And obviously our growth outlook keeps accelerating. So that number, for both those reasons, would change the 27 number. So for the time being, that 55 to 65 is for the revenue as a percentage of revenue for 2026.

Rustem Kanga | Analyst at Citizens:

Thank you very much.

Operator | Conference Operator:

We have reached the end of the Q&A session. I will now turn the call back to Gleb Budman for closing remarks.

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

Thank you. So AI is reshaping the entire infrastructure market. And BackWay has built exactly what this moment demands. Storage is that durable layer beneath AI. I'm really pleased with how our team has stepped up to capture this generational opportunity. I want to thank all our backblazers for leaning in and to our customers and partners and investors for joining us on this journey. Finally, we look forward to seeing many of you at our Investor Day in New York City and on our live webcast on September 9th. Please RSVP to ir.backblade.com if you'd like to join the in-person event. Thank you all for joining today's earnings call. Operator, you may now end the call.

Operator | Conference Operator:

This concludes today's call. Thank you for attending. You may now disconnect.