NASDAQ:BLZE Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Hello, everyone. Thank you for joining us and welcome to the Backblaze third 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 and Corporate Development. Mimi, please go ahead.

Mimi Kong | Director of Investor Relations and Corporate Development:

Thank you, good afternoon, and welcome to Backblaze's third 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 saving 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 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 8-K filed today with the 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, gross customer retention rate, and adjusted free cash flows. We will be participating in the Craig Hallam Alpha Select Conference on November 17th in New York and the Needham Virtual Tech Week on November 18th and 19th. We look forward to connecting with you all. Thank you for joining us and we'll now like to turn the call over to Gleb.

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

Thank you, Mimi, and thank you everyone for joining us today. We had a strong third quarter as we continued to deliver on our strategy of being the high-performance capacity storage layer for AI. Revenue reached $47 million and B2 revenue growth accelerated again to 47% year over year. What stands out to me is also the breadth of that acceleration, ranging from our smallest self-serve customers to our largest sales-led customers. We added roughly four times the number of net new B2 self-serve customers versus the same period last year. Customers over $50,000 in ARR grew by 19 to 254, showing our upmarket momentum is repeatable. And we again closed four deals over $500,000 in ARR, a sign of the value we delivered to the largest data users. All of that reflects the value of our platform along with the progress we're making on our AI strategy and go-to-market execution. Now, let me share what I'm seeing in the market. In conversations with customers, AI founders, and infrastructure providers, I'm hearing two consistent themes. First, data growth keeps exceeding expectations. Our early AI customers' storage needs consistently outpace even their own aggressive forecasts. Training models continue to require ever larger datasets and AI applications and agents

are generating more data and giving companies new reasons to retain and reuse existing datasets. And second, companies are increasingly focused on getting more efficiency and ROI from AI. They're leaning into open models, using routers to select the optimal model for each task, and working across multiple AI clouds to improve economics. Storage tiering is one of the important ways to improve that ROI also. If you have a router to select the right model, why wouldn't you apply that same discipline to selecting the right storage location? Together, those trends create a growing opportunity for Backboys. Customers need to collect, retain, and use more data while getting a better ROI from their infrastructure spending. Our high performance capacity tier helps them do both. As we've discussed, we serve two groups, AI infrastructure companies to whom we provide a capacity storage tier for their customers and AI builders who need capacity storage for themselves. Let me start with the progress we're making with our AI infrastructure customers. While we're continuing to progress in conversations with multiple leading AI infrastructure companies, we believe the best way to build on this opportunity is to deliver for the customers who have already chosen us. Bring their capacity online and give them a great experience as they scale. We've secured the necessary hardware allocations to fulfill our requirements and shipments are tracking ahead of schedule. Our team also finished development ahead of plan for the large Neocloud customer we announced at the start of the year, and that customer began loading data several months ahead of our early 2027 expectation. Additionally, CoreWeave continues to be a great partner and has begun to ramp on our platform. Thus, both agreements are moving into execution, and each carries a multi-year minimum commitment so revenue is underpinned by contract, and the ramp follows our customers loading data into capacity we deploy. Turning to AI builders, which use Backblaze directly, we're building a repeatable, scalable way to reach these customers, help them get started, and support them as they grow. These builders work across areas like foundation models, physical AI, and generative media. Their products differ, but many share the same need, a capacity tier that grows with them as they train and tune models and generate new inference data. We're seeing strong momentum here. The number of new AI builders entering our pipeline doubled in Q3 compared with Q2. This is pipeline, not closed deals, but we're encouraged in driving it three ways. First, helping builders discover backblaze. Years of trusted original content, including nearly 13 years of drive stats, have established backblaze as an authority on storage. AI search tools draw on content like this to answer storage questions for people and agents. giving Backblaze more opportunities to appear in those answers. This visibility resulted in visits from AI search engines growing 230% year over year, roughly double the market rate. And those visitors create a self-serve account or contact sales at more than twice the rate of visitors from organic search, which traditionally had been the gold standard. We believe this is strengthening customer acquisition across our broader business through both self-serve and direct sales. Second, deeper ecosystem relationships. Through Flamethrower, we reach builders via VCs, startup communities, and events like TechCrunch and Coast to Coast Startup Lab. Hundreds of startups now participate in the program, letting us build relationships early and support their storage needs as they develop their businesses. Third, making it easier for developers and their AI agents to build with Backblaze. We've published reference architectures for B2 in AI workflows and expanded the tools developers use to integrate our storage. For example, our new open source B2 MCP server lets AI agents use B2 storage directly with governance through customer-defined permissions. This growing pipeline and engagement across the ecosystem reinforce our confidence in our product market fit for AI builders. And we're focused on turning that interest into lasting customer relationships and long-term growth. Now, onto the four agreements over 500K ARR signed this quarter. We had three expansions with existing AI builders showing how customers often start small and grow, and one brand new agreement for a core workload. First, the training data provider we highlighted earlier this year that signed a nearly $1 million agreement in just 11 days and then expanded by more than $1 million just a couple months later. This quarter, they signed a separate incremental agreement worth more than $4 million in ARR for a new workload on B2. Second, a generative AI media company expanded as its AI training workloads and data grew. Third, an AI voice company is connecting its GPU provider's compute directly to Backblaze, allowing it to store more of its data with us. Each of those three increased their total commitment to more than double its original level within a year. For us, these examples, customers are bringing more workloads to Backblaze and making us a deeper part of their architecture. The fourth agreement highlights continued demand for core workloads, a market we estimate at $26 billion for 2026. A global networking technology company signed a new agreement worth approximately $500,000 in ARR for Powered by Backblaze, our white label offering, replacing the

varied storage setups its customers bring with one simpler experience and creating a new revenue stream. Our track record brought them to us. Our economics and ease of integration made the offering work. Q3 was a great quarter. More customers chose Backblaze, existing customers expanded, and large AI infrastructure customers began to ramp. Together with accelerating B2 growth, that reinforces our role in AI and our ability to deliver on the opportunity ahead. As we look forward, training, checkpoints, logs, and inferencing are all part of the AI workflow that's generating data. Foundation Models, Generative AI, Multimodal, Physical AI, and many more are categories of AI organizations and use cases generating data and agents are accelerating how all that is being accessed and used. The net of that is companies seeing massive growth in their needs for storage while also aiming to drive clear ROI from their investments. That makes for an exciting time for Back Boys. With that, I'll turn it over to Marc.

Marc Suidan | Chief Financial Officer:

Marc. Thanks, Gleb, and good afternoon, everyone. Q3 was another quarter of accelerating growth and improving operating leverage. Total revenue grew 26% the over year to reach a new record quarterly high of $47 million, led by B2 Cloud Storage, where revenue growth accelerated to 47%, up from 34% in Q2 and 28% a year ago. Adjusted EBITDA margin expanded 1,000 basis points year-over-year to 33%. Both revenue and adjusted EBITDA exceeded the high end of our guidance and we are again raising our full year guidance. Let me walk through the quarter, starting with revenues. Total revenue was $47 million, up 26% year-over-year and $2 million above the high end of our guidance. The outperformance was broad-based, driven by strength in our B2 direct sales bookings, higher B2 self-serve customer growth, and less than expected churn. B2 revenue grew 47% year-over-year, our strongest growth rate in 10 quarters. The May 1 price increase contributed approximately 12 percentage points to B2's growth. Excluding it, B2 organic revenue grew 35% compared with 26% on the same basis in Q2. B2 ARR reached $127 million, up $14 million from Q2, and 53% year-over-year. We also continued to move upmarket. ARR from our $50,000-plus customers grew 109% year-over-year to $50 million, as expected in their large committed contracts. Corweave and the other previously announced Neocloud deal did not contribute significantly to Q3's growth acceleration. Both have now started to ramp and we expect meaningful contributions from both of them to grow in the coming quarters. B2 net revenue retention was 115% up from 113% in Q2. Computer backup revenue was $16 million, down 2% year-over-year, but up sequentially as our growth and retention initiatives stabilized revenue. Moving on to gross margin. Total company gross margin was 64%, up from 62% in the prior year, with the pricing update continuing to help. Operating expenses were 67% of revenue, improving from 72% a year ago as revenue grew faster than our expense base. Adjusted EBITDA margin reached 33%, exceeding guidance on stronger than expected revenue results. Our GAAP net loss narrowed to $2 million as we continue to make progress towards GAAP profitability. Non-GAAP net income was $6.7 million, more than three times the $1.9 million reported a year ago. Cash flow from operations was $23 million year-to-date, compared to $14 million a year ago. adjusted free cash flow was $2 million year-to-date compared to negative $10 million last year. Year-to-date PP&E additions netted dispositions totaled $33 million. We continue to expect full-year PP&E capital expenditures of 55% to 65% of revenue. Days on the midpoint of our revenue guidance, this implied $65 to $83 million in Q4 subject to delivery timing. We expect to fund most of these expenditures with cash from our convertible debt proceeds, and those cash outlays will be reflected in free cash flow. Over the next four to five quarters, we expect to deploy capital to support contracted demand, including the CoreWeave, other NEO clouds, and AI Builders commitments. We are adding capacity ahead of customer ramps, which means depreciation will begin before the associated revenue, temporarily reducing GAAP gross margins by 3 to 6 percentage points. As customer usage ramps, we expect cash generation to strengthen and gross margin to recover. Turning to the balance sheet, we ended Q3 with $230 million in cash, cash equivalents, and marketable securities. Our zero-coupon convertible financing funds this build-out without the cash interest expense associated with financing the same equipment through capital leases. We also purchase cap calls to mitigate potential equity dilution. Assuming the debt principal is repaid in cash, the cap call completely offsets dilution up to $33.76 per share. Our earnings presentation includes a table detailing net dilution at various stock prices above that threshold. Turning to guidance, for Q4, we

expect revenue of 49.8 million to 50.2 million. At the midpoint, we expect B2 revenue growth to accelerate to approximately 60% year-over-year in Q4. This strong exit rate gives us confidence in our 40% plus growth outlook for B2 in 2027. For adjusted EBITDA margin in Q4, we expect a margin of 32% to 34%. For the full year, we are raising revenue guidance to $177.8 million to $178.2 million, a $5 million increase at the midpoint. For full year adjusted EBITDA, we are raising our 2026 fiscal year margin outlook to 30% to 31%, from 27% to 29%. Consistent with our guidance philosophy, this outlook excludes potential new deals greater than $500,000 in ARR in variable usage above contracted minimums. Q3 demonstrated continued progress against our objectives, accelerating B2 growth and translating that growth into operating leverage. We are investing against committed demand while maintaining operating discipline, positioning the business for the next phase of growth across a diversified set of customers. With that, operator, please open it up for questions.

Conference Operator | 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 1 to raise your hand. To withdraw your question, press star 1 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 Etai Kidron with Oppenheimer & Co. Your line is now open.

Etai Kidron | Analyst, Oppenheimer & Co.:

Thanks. Hey, guys. Congrats on good numbers here. One question for you. So I guess, Gleb, I'll start with you. I just want to make sure I understand your comments on PAI infrastructure customers. If I interpret that correctly, you said something to the effect of focus on current customers and make sure that you ship and ramp with them appropriately. Am I interpreting this to mean that you're, I don't know, temporarily or permanently, you tell me, are kind of slowing your chase of new neoclouds and you're more focused on ramping existing ones? Is this a change in strategy? Am I interpreting that correctly?

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

Hey, Tay, thanks for the question. It's not a change in strategy. We still are going after the neoclouds. We have a team that's working on it, and we're in discussions with a number of them. It's more a statement that the ones that we have signed, both CoreWeave but also the other large one in particular that we announced at the beginning of the year, these are significant scale-up opportunities for us. and we want to make sure that we do a really good job and so you know it's it's a lot of organizational focus on just executing relentlessly on that and we think that by doing that that's going to be the best path we have to really take advantage of the overall opportunity with the broader set of neoclouds. So not a changing strategy. We still believe that there's a big opportunity for us to service the broader neocloud landscape, just a recognition that there's a lot of work to be done to make sure that we hit the full multi-exabyte deliverability that we're doing for them. And then separate from that is obviously the AI builders opportunity for us is also very large. And so it's just executing on both in parallel.

Etai Kidron | Analyst, Oppenheimer & Co.:

Okay, very good. And then, Marc, I just want to make sure I understand the numbers and your guide for the next quarter. Again, just to clarify, it doesn't sound like CoreWeave contributed much, if any, to the third quarter. Your guidance to the fourth quarter, you know, if you take into account the bid that you handed the quarter now, I would have to think that CoreWeave needs to and should contribute more in 4Q. So, Is it fair to

say that just the step up there hasn't been a substantial one relative to the beat and how you roll numbers? So am I interpreting that to mean that you're being extra conservative here still on Corweave itself? Or is Corweave more of a 27 ramp? Help me think the timing here around this.

Marc Suidan | Chief Financial Officer:

Yeah, hi, Itai. Corweave ramps all the way through middle of next year. They're on track for that. You are correct that in Q3, it was not that meaningful to the 47% growth. That was more broad-based across everything else. As it relates to the 60% B2 growth we guided for Q4, there's definitely a bit of core weave there, and there's also the overperformance of Q3 as it relates to the four large deals greater than half a million we announced in there. And then, you know, Corweave and the other Neocloud really started kicking in in higher gear in Q1 and then Q2 of next year and then full ramp Q3 of next year. Appreciate it. Thank you. Good luck.

Conference Operator | Operator:

Your next question comes from the line of Jason Ader with William Blair. Your line is now open.

Jason Ader | Analyst, William Blair:

Yeah, good afternoon. Thanks. I guess. Mark, just on the fourth quarter gross margin, so you didn't give specific guidance for that. You talked about kind of a three to six point impact from all the CapEx depreciation, but is it right to think that it won't be that big an impact in Q4 just because the CapEx is coming online in the quarter and therefore it's more of a next year Q1 event?

Marc Suidan | Chief Financial Officer:

Yeah, that's correct, Jason. You know, a lot of it starts arriving in Q4, right? Because we signed our big deal in June. We started placing all our orders. If it comes at the tail end of Q4, there's a bit of an impact on depreciation in Q4, thus gross margin, but it really picks up more in Q1 and Q2 of next year. And then thereafter, It starts recovering for the four quarters after that.

Jason Ader | Analyst, William Blair:

Gotcha. Okay. And just to be clear, you're still comfortable with the timeline on the core weave ramp, even though there's a lot of concern in the market right now?

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

Hey, Jason, this is Gleb. So the short answer is yes. We've always been a great partner. We're working closely with them. We don't see any signs of any risk or any concern. It's a committed contract with committed minimum ramps. We're building toward that. It's obviously on us to make sure that we execute well on delivering everything that we need to deliver to them. And I think that there's clearly a lot of demand for and many more.

Marc Suidan | Chief Financial Officer:

We're very well capitalized. I mean, between the convertible debt offering we did, the cash balance we had, and the capital lease lines, we have access to over $400 million to be able to fund whatever we need. We're not going to spend $400 million, but we have access to it. So we're well capitalized to continue down this route, both for CoreWeave as well as the broad-based projects. Demand we're getting and the additional signals we're seeing.

Jason Ader | Analyst, William Blair:

Let me ask you this final question then. If for some reason something went wrong with CoreWeave, how confident are you that you could find the demand for that additional capacity that you're bringing online?

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

I think, Jason, you know, kind of just broadly, you know, kind of as I was saying in the preparatory marks, we're seeing overperformance across all of our segments. You know, everything from Flamethrower, which hit a record... Thank you for joining us. and many more. All right. Thanks. Good luck. Thank you.

Conference Operator | Operator:

Your next question comes from the line of Mike Sikos with Needham. Mike, your line is now open.

Mike Sikos | Analyst, Needham:

Hey, thank you for taking the questions, team, and congratulations on a successful quarter. For Gleb Warmark, I just wanted to see, and I don't want to, I'm trying to get a sense of the individual factors here when I'm thinking about the increased guide for 4Q, which is great to see, right? We're talking about the strength of the B2 self-serve customers, We're talking about these four large agreements. We're talking about CoreWeave, which I think you said actually started loading their data several months ahead of what was expected. And really, the question is, could you help us tease apart those various factors if we're trying to figure out what is the 3Q, the core 3Q outperformance that is benefiting 4Q here versus maybe some of these larger like CoreWeave or that other neocloud scaling faster than anticipated?

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

Hey, Mike, this is Bob. So first of all, just to clarify, it wasn't CoreWeave that started a few months before their plan. It was the other NeoCloud that we announced at the beginning of the year where we had development work that we talked about that we needed to do in order for them to start being able to utilize the platform. We finished that development work early, which is a great testament to our team and the way that the team has been able to execute on an engineering and operations side. and then that customer has started loading data earlier by a few months. We had originally said we expected it to start at the beginning of 2027. So that's on that piece of it. I'll let Marc maybe touch on more of the individual components for the guide.

Marc Suidan | Chief Financial Officer:

Yeah, Mike, good to be talking to you. When you think about the, you know, we've announced 11 deals so far this year. of greater than half a million dollar ARR. That all fits into why this guy is getting to 60% year-over-year growth. And of course, there's CoreWeave and the other NeoCloud in there, but the acceleration that's been happening this year is really strong. And a lot of these customers, as Gleb noted, I would say they're what we consider AI builders, companies with about Okay, and it

Mike Sikos | Analyst, Needham:

I know that you had commented as well on CapEx for Q4 and potential impact and headwinds on gross margin until the revenue ramps behind it. Are we at a point where you can help us think about CapEx next year, just given the market's interest or appetite for data points surrounding capital efficiency and returns on those capital requirements?

Marc Suidan | Chief Financial Officer:

Yeah. So, you know, we previously shared at the Investor Day that we got about a two year payback to recover our CapEx spend. Right. So if you're if you're to think about where AR ended at the end of 25 and where it could potentially end at the end of 27, let's hypothetically say that's about 150 million. That would require 300 million dollars of CapEx. and for the lifetime of that CapEx, that would generate a billion dollars of revenue in aggregate, not per year. So that's the economics there. So you're seeing the CapEx ramp not really accelerated. Any CapEx acceleration from our side is predominantly tied to revenue growth because for every dollar of ARR we're adding, we need to fund $2 of CapEx. and so that's where you're seeing that pick up in Q4. Like we said at the investor day also, we will probably pay for most of those in Q4 in cash. So you'll see that in the free cash flows. And then afterwards, we'll step back and see how much we wanna re-blend in the capital lease model back into that. So we're continuously evaluating those options. Does that address your question, Mike?

Mike Sikos | Analyst, Needham:

Thank you very much, Tim. It does, it does. Thank you so much, Mark.

Conference Operator | Operator:

Your next question comes from the line of Eric Seppager with B. Reilly Securities. Your line is now open.

Eric Seppager | Analyst, B. Riley Securities:

Thanks for taking the question. Congrats on a good quarter. Can you talk a little bit about how you would compare the market opportunity as you see it today between the AI builders and the AI infrastructure providers? It sounds like maybe with interest rates going higher You're placing your bet more broadly on the AI builders. Is that a reasonable assumption? And then secondly, just on CoreWeave, can you describe the trajectory of how that business is going to ramp between now and third quarter of next year? Is it going to ramp up right as you get into the middle of the year? How should we think of that trajectory?

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

Eric, thanks for the question. First of all, on the AI infra versus the AI builders, one of the things we had talked about before is that AI infra companies, there's a couple hundred of those companies out there, and there are different stages of their maturity curve. What we found is that ones that are just at the earlier stages, all that they're focused on is building up their Somebody's typing hard. The ones that are earlier in their maturity curve, they're very focused on just being able to stand up data center power and GPUs. The ones that are further along in their maturity curve, they're actually thinking about the broader customer workflows and helping them solve those. The Those that are further along are the ones that are starting to lean into the realization that they need to provide storage as a part of their services. And as they do that, they realize that a capacity tier of storage is critical to serving the actual required workflows of their customers. So in part, some of these couple hundred are and many more. On the AI builder side, part of the reason that we're talking about that side is there's so many of these companies out there. They have large storage needs and they have them today. So I was looking at some of our companies that are AI builders on our platform. We have a frontier lab that's focused on the radiology space. We have a frontier lab focused on biotech research. We have a frontier lab focused on quantitative modeling for financial services firms. We have an AI data provider that's focused on providing a variety of data sets for enterprises. We have a surveillance platform company that's focused on leveraging AI to enable all their surveillance functionality. We have We have a company that's doing AI applications delivery for enterprises. So these are all a variety of AI builders. And there's 33,000 venture-funded startups that are in this kind of grouping. And that's just the AI startups, not including the midsize scale-ups and other enterprises that are doing it. doing building in the AI space. So it's an area where we see a lot of opportunity to have scalability, repeatability, and the ability to service them today while we work on these individual larger opportunities on the AI end front.

Marc Suidan | Chief Financial Officer:

Yeah, and Eric, I could dive to the other part of your question and then Thank you so much for joining us. Unlike their predecessor startups, pre-AI, they have a P&L line item, data storage. We got a report that says 15% of their spend is on data storage. That's obviously varying types of data storage. So it's suddenly a much bigger part of what a startup is today than what it was before because it's a key asset for them. Now, you asked about the CoreWeave RAM. So if you remember the CoreWeave and many more. using our platform, but they fund the CapEx in their data centers. So that 30% is the managed storage part. It's obviously a much higher gross margin. That kicks in a bit later. For the first part, the 70%, that's the ramp now that you're seeing. And there's a two-way minimum commitment, right? We got to deliver a certain capacity, ramps up every month all the way through July of 2027 next year. and that's their commitment to us as that ramps up as well. So it's a two-way commitment. So once we get to July 2027, that 70% of the contract reaches its minimum run rate for the remainder of the contract. Does that provide you what you're looking for on the ramp side, Eric? Yeah, very helpful.

Eric Seppager | Analyst, B. Riley Securities:

Thank you very much.

Conference Operator | Operator:

Your next question comes from the line of Eric Martinuzzi with Lake Street Capital Markets. Your line is now open.

Eric Martinuzzi | Analyst, Lake Street Capital Markets:

Shifting over to the computer backup side of the business, those numbers in Q3 outperformed, certainly versus what I was modeling. I'm curious to know, I think you had talked last quarter about kind of a down mid-single digits range, or maybe it was low to mid-single digits, but What's implied in the 2026 for CDU?

Marc Suidan | Chief Financial Officer:

So for Q4, we're still implying, you know, that low single digit decline year over year. That's what's in the guide. And what you saw in Q3 was the initiatives we've taken to retain or grow customer acquisitions have stabilized the revenues. So that's why sequentially there was a slight increase. But as it relates to the guide, we're still guiding the same way we did in the previous quarter until we see that pattern solidify.

Eric Martinuzzi | Analyst, Lake Street Capital Markets:

Got it. Thank you.

Conference Operator | Operator:

Your next question comes from the line of Jeff Van Rie with Craig Hallam Capital Group. Your line is now open.

Daniel | Analyst, Craig-Hallum Capital Group (on behalf of Jeff Van Rie):

Hey, Gleb, Marc, this is Daniel on for Jeff. Congrats on the quarter, great quarter. In terms of maybe you could walk us through a little bit, you know, we've talked about the build out that's going to be happening for CoreWeave starting in Q4 here. Maybe when we look to the rest of the business, you could just walk us through some of the key items you're looking at, hurdles, long lead items, you know, sort of what are the things you need to get in place, how responsive If you see a surge in demand, how long does it take to build out to meet that? And I don't know if there's any other thoughts in terms of the need, as obviously the rest of the B2 business has been accelerating a lot.

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

Hey Daniel, thanks. This is Gleb. Appreciate the comments. So the short of it is, it's a huge step up, right? We're basically increasing the capex by something like a factor of 10 over the course of the next year-ish. So it's definitely a large increase across all the aspects of the business. The good news, I would say, and Marc can touch more on this, but the supply is something that we have allocated from the vendors. We work closely with them. and, you know, allocated does not mean that we have them in our possession and we've paid for them. It means that we have the allocation and we pay for them once we actually get them. But it does allow us to have confidence in being able to deliver on our commitments for our partners.

Marc Suidan | Chief Financial Officer:

Yeah, and there's two aspects. One is the hardware. I mean, we used to plan, to be conservative, we planned on nine months to fulfill from order to fulfillment. It's coming in closer, I'd say, between four and five months. We're doing well there. Things are on schedule as it relates to the hardware side. The data center, no secret, it is a top election issue. We actively monitor that to make sure we're expanding at the right rate because at the rate of growth, we are growing. We've had quite a few expansions and we're actively making sure we

have enough capacity there to sustain our growth. Those are the two aspects we've got to look into because As you noted, Daniel, you've got the CoreWeave commitment, you've got the other Neocloud commitment, you've got these 11 deals greater than half a million, you've got the self-serve signups of more than quadruple, and there's been one consistent trend since B2 launched in 2016, which is every year the data from the existing customer grows, and that's before even AI hit the scene. And now with AI, we're just seeing the velocity of growth of that data really accelerate. So with that, those are the elements we look for. It's the data center and the hardware. The power comes with the data center. So they go hand in hand in the hardware. We are predominantly on high capacity drives from the main vendors. There's also some a bit of compute and networking that fits into there as well.

Daniel | Analyst, Craig-Hallum Capital Group (on behalf of Jeff Van Rie):

And then just in regards to computer backup and multiple exabytes that you have on the more traditional business, is there potential over time for some of that capacity to potentially shift or be allocated toward B2 as you see more opportunities there?

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

Yeah, it's an interesting question, Daniel. I mean, I think that the short of it is that the computer backup business itself is kind of roughly a flat-ish business. So it becomes a smaller and smaller percentage of the overall infrastructure. We do look continuously at ways to optimize that business. Some of the optimizations are churn reduction and growth, which is optimizing on stabilizing the revenue, like we did this quarter, which was an exciting moment. and some of it is about optimizing the data footprint. And so we do have initiatives underway to look at how to do that further to the extent that we do do that, that space can be repurposed for some of the BE2 use cases. It's not the, I would say, the core focus for the way we do it, but it is an opportunity for it.

Daniel | Analyst, Craig-Hallum Capital Group (on behalf of Jeff Van Rie):

Thanks, Glenn. Thanks, Marc.

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

Thank you.

Conference Operator | 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:

Great, and thank you, everybody, for joining us. This was a great quarter. We showed broad-based momentum across our business, 53% year-on-year growth in B2ARR. We see AI being a years-long tailwind for our business as we provide the capacity tier that AI desperately needs. Our mission is to make customers unstoppable by solving their toughest storage challenges. And the pace of AI innovation is making those challenges dramatically more urgent and greater. I want to thank our customers for trusting us to support your businesses and innovation, our partners and investors, and our team for doing all the hard work to make all of

this happen. Thank you for joining us. We'll look forward to talking with you again next time. Operator, you can end the call.

Conference Operator | Operator:

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