NASDAQ:DUOT Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good afternoon. Welcome to Duos Technologies' fourth quarter and full year 2025 earnings conference call. Joining us for today's call are Duos President Doug Recker and CFO Leah Brown. Following the remarks, we will open the call to your questions. Then before we conclude today's call, I'll provide the necessary cautions regarding the forward-looking statements made by management during this call. Now I'd like to turn the call over to Mr. Doug Becker. Sir, please proceed.

Doug Becker | Chief Executive Officer:

Welcome, everyone. Thank you for joining us. Earlier today, we issued our earnings press release and our 10-K for 2025. Copies are available in the investor relations section of our website. I encourage all listeners to view press releases and our 10-K following to better understand some of the details we'll be discussing during this afternoon's call. Before I begin, I would like to take a minute to personally thank Chuck Ferry for his leadership and guidance. Chuck has served the DUOS organization and provided personal mentorship to me. I value Chuck and the opportunity he has provided me at DUOS. It is not every day that you get to be mentored by a war hero and a corporate champion. And for that, I will be forever grateful. I look forward to your continued mentorship and guidance as you continue to serve on our board of directors. Thank you, Chuck, for all you have done and continue to do for the DUOS organization. As your newly appointed CEO, I am honored and excited to discuss the focus of DUOS Technologies Group. We are now fully dedicated to the data center market through our DUOS Edge and Tech Solutions Division, driven by accelerating customer demand. I will get into more of that in a minute, but want to give you an update on the rail technology and DUOS energy subsidiaries. First, let me talk to you about our legacy business, which is a rail car inspection portal. In the previous calls, we had discussed that this line of business has become less important to our future at DUOS. We also talked about diversifying our business strategy to edge computing. Thus, we have made the decision to completely divest the rail division. This divestiture is expected to take place over the next 60 days. This decision did not come lightly. and I know the rail technology has a rich history with Duo shareholders. In fact, my involvement goes back many years before joining Duos, and I was intimately involved in the design and building of the edge data centers that the portal uses today. However, the lack of growth and regulatory hurdles for that business has proved to be extremely challenging to manage. The decision to invest frees up company resources and cuts significant SG&A expenses. More details will be made available on the few divestitures in the near future. Second, I would like to talk about Dewis Energy Corporation. As many of you may remember from last year, Dewis entered into an asset management agreement with New APR Energy to help find new contracts to engineer, procure, construct, and operate fast power plants. Dewis also was giving a 5% equity stake in the parent of APR Energy. The AMA provided the interim financial ability to execute and pivot to our data center strategy. We announced on the Q3 earnings call that the AMA would conclude in 2026, but DUOS will retain the 5% equity stake. Now I would like to discuss our data center strategy and our new line of businesses at DUOS Technology Solutions. Part of our strategy in building and deploying data centers at a rapid pace has always been focused on cost savings, lowering our capital expenditures. Building data center infrastructure is very capital intensive. As Duos is a relatively small buyer compared to the larger hyperscalers and co-location companies, we needed a way to buy products cheaper. So we created Duos Technology Solutions. This brand new division allows us to do just that, as well as provide a new stream of revenue for us. We started by hiring an industry veteran with a proven track record who understands our business as well as the data center market overall. Kristen Sanderson joined Duos and will serve as the Senior Vice President of Duos Technology Solutions. Kristen has over 18 years of data center product experience, vast market distribution knowledge, relationships with all the key supplier partners that Duos needs to work with, and a wealth of relationships in the data center industry. This new division allows DUOS to procure materials for its own builds at a much lower rate than the legacy way of purchasing through traditional distribution. DUOS Technology Solutions offers the same strategic sourcing and product distribution to new customers, including large-scale enterprise organizations, hyperscalers, large co-location companies, low-voltage contractors, and general contractors across the United States. I'm very pleased to report that through the first quarter, Duo's Tech Solutions has already sold 10 million in new business, which currently sits as backlog, all of which I expect to be recorded as revenue this year. This new line of business has low overhead and is simple to execute while having strong commitments by the end client. The revenue generated from Tech Solutions is expected not only to replace the revenue from the new APR AMA, but also provide better margins, thus further contributing to the overall future profitability and growth of Duos Technologies Group. Kristen has built a seasoned team with the talent and short three-month build, tremendous sales pipeline, and we expect amazing things from this new venture. Now I want to shift our discussion to the core of our new data center-focused organization, Duos Edge AI. The demand for edge computing continues to grow at a rapid pace, and I'm pleased to share that Duos Edge AI is in a great place to meet this demand. The second half of 2025 proved to be extremely busy for Duos Edge. In July 2025, we successfully completed a capital raise of $45 million with Titan Partners to fund the construction and deployment of 15 EDCs to further broaden the connectivity and compute needs of underserved Tier 3 and Tier 4 markets. Lewis Edge AI was also awarded a patent for clean room technology for modular data center deployments, which gives us a strategic competitive advantage in the space. Our goal in 2025 was to procure, manufacture, deploy 15 edge data centers. This goal was extremely aggressive and unheard of in our industry. We are proud to report today that we have accomplished that goal. Our focus for the first half of 2026 is to continue executing our sales strategy to acquire new customers in our markets to fully utilize the capacity of each EDC. In March 2026, we completed a 65 million capital raise to deploy approximately 2,300 GPUs as a service. a 4.8 megawatt high-density EDC deployment for a leading hyperscaler and to expand our high-density EDC footprint to support growing demand for power and compute across AI inference, training, enterprise, and hyperscale AI workloads. We also have five new EDCs in production with plans for an additional 20 megawatts of deployed capacity by year-end. Having inventory for our EDCs to deploy is crucial for our continued growth and success in this market. The Duos Edge AI story and its initial success is garnering tremendous excitement and demand, so inventory will allow us to react quickly to new market requests. Part of this new demand we now see is for higher density power, which serves AI and high-powered compute needs. While Duos Edge AI is committed to sustainability, Taking to our original model of deploying in the Tier 3 and Tier 4 markets, we are seeing unprecedented demand for power in megawatts compared to kilowatts. The data center market is experiencing a boom like we've never seen before, and building at scale is costly, and it takes years to complete. During the course of this deployment, our 15 EDCs, we saw an influx of calls requesting more power in the markets where we reformed organizations all across the country. There is such a shortage of data center space and power that companies are turning to Duo's Edge AI. So we are going to start to build our new EDCs with greater power capacity to meet this demand. We have shown the market we can deploy at lower costs with an incredibly faster speed to market. Duo's Edge AI will now be able to cater to customers that have the high density needs like the NeoCloud providers and hyperscalers for their remote edge sites. These higher power capacity EDCs should provide much higher monthly recurring revenue for DUOS, which we will explain in our financial update coming up shortly. Before I transition to the financials, I would like to touch on our start of the year and our first partnership in deploying high-density power EDCs. This month, DUOS executed its first contract across two newly launched business lines, GPU as a Service and high-power co-location service for AI infrastructure. Under our GPU as a service agreement, NUOS will deploy 2,304 NVIDIA GPUs across our Edge data center platform, generating reoccurring revenue through a GPU rental model purpose-built for enterprise and AI workloads. This contract is expected to generate approximately $176 million in revenue over a 36-month term. with margins exceeding 80%, an expected annual EBITDA of approximately 40 million. Separately, DUOS was awarded a high-power co-location contract to deliver 4.8 megawatts of critical compute power to support a leading hyperscaler's high-density NVIDIA GPU cluster, housed within DUOS Edge data centers. This contract represents DUOS' entry into the market of high-power co-location where demand for AI-grade infrastructure continues significantly outpacing supply. Together, these contracts mark a significant commercial inflection for DUOS, establishing two distinct and complementary revenue streams within our data center platform and validating edge data center infrastructure at the highest level of the AI compute market. Since announcing these contracts, we have received strong incremental inbound interest from hyperscalers, Neocloud providers, and other large-scale compute customers seeking high-density EDC solutions, we see a significant opportunity to scale the high-power EDC model through 2026 and beyond. Now I would like to turn it over to our CFO, Leah Brown, who will go over our financials for 2025. Leah?

Leah Brown | Chief Financial Officer:

Thank you, Doug. This has been an exciting year for Duo. 2025 is a year marked by significant revenue growth, strategic investment, and meaningful progress toward building a stronger, more scalable company. I am truly excited to walk through our full year financial performance and highlight key operational drivers that shaped our results. For 2025, total consolidated revenue was approximately $27 million. The company previously projected revenue in 2025 of $28 million. Although that target was not met, we recorded a little over $1 million in deferred revenue for technology solutions, which is contracted, cash was received, and we will record as revenue in 2026. In 2025, the $27 million in revenue was a significant increase compared to 7.3 million in 2024, which is over a 270% increase year over year. This growth was primarily driven by services and consulting revenue from the asset management agreement with new APR energy, totaling 22.4 million in 2025 versus 900,000 in 2024. The company delivered materially stronger growth margin in 2025, generating 7.9 million in gross profit, achieving approximately 29%, a significant year-over-year improvement. This was driven by improved cost absorption, and continued operating efficiency. The company reported net loss of approximately 9.8 million in 2025, an improvement from the 10.8 million net loss in 2024. The year-over-year improvement was driven primarily by higher revenue and significantly stronger gross margin. As we discussed on our Q3 earnings call, achieving positive adjusted EBITDA was an important milestone for the company, reflecting the early benefits of revenue scale and margin improvement. I'm pleased to report that we built on that progress in Q4. Delivering positive adjusted EBITDA for the second consecutive quarter, This consistency is meaningful and demonstrates that the Q3 result was not a one-time event, but rather the continuation of improving operating performance as the business scales. The consecutive improvement from Q3 to Q4 reinforces our confidence in the direction of the business, driving higher revenue volume improved growth margin, and more efficient cost structure. Let's shift to the balance sheet. The company ended 2025 with approximately $63 million in total assets, reflecting meaningful growth year over year. Cash increased significantly compared to the prior year, driven by capital raise during the year, which strengthened liquidity and enhanced our ability to support operations and planned investments. Another strong position on the balance sheet is property and equipment, each with significantly increase year over year, reflecting continued investment in infrastructure and assets required to support the program execution and long-term growth initiatives. The current contract liabilities, over $5 million, supports the company's future revenue recognition. On the equity side, capital raised during the year strengthen our balance sheet and liquidity, while ongoing investment in the business aligns our strategy to scale operations and drive longer-term value creation. 2025 was a transformative year for Duo Technologies Group. We significantly scaled revenue, strengthened our liquidity position, and made strategic investments that positioned the company for increased operating leverage and margin expansion going forward. As previously reported, the rail segment remains relatively flat. In response, we are divesting the rail business and reallocating resources to support the continued expansion of our EDGE data center segment. Turning to our 2026 outlook, the company is providing revenue guidance of 50 to 55 million in total revenue across all business lines. This forecast reflects growth from both our core operations and newer initiatives, which Dove will cover, and we believe positions us for a strong year. Due to the timing of revenue recognition, a significant portion of revenue is expected to be recognized in the second half of the year, coinciding with the periods in which we expect to achieve positive EBITDA. Our investment and expanded revenue opportunities give us confidence in our ability to execute and continue building a stronger, more profitable company. Doug, I'll turn it back to you for additional comments.

Doug Becker | Chief Executive Officer:

Leah, thank you. Before we open this up for questions, I wanted to say again how honored I am to serve as your new CEO. The new data center focus strategy is the new newest group Duos Technologies Group, and we are poised for great success. We have been awarded Global Recognition with the Innovation of the Year Award at the largest data center and telecom conference at Pacific Telecom Council, 2026 in January. We have also been nominated for Breakout Success in North America Digital Infrastructure Leader of the Year from the Tech Capital Global Awards coming up in May. The Global Recognition only solidifies we are on the right path at Duos with a prosperous future ahead. We understand we have a new focus, and this is a departure from our legacy business past. We are taking steps to ensure the new messaging is relayed to the market and that we will be given the appropriate market coverage moving forward. We will be retaining an IR firm to assist and expect several analysts to report on our new focus and business activities in the near future. And with that, I will open it up to questions. Operator?

Operator | Conference Operator:

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Thank you. Our first question comes from the line of Ed Wu with Ascended Capital Markets. Please proceed.

Ed Wu | Analyst, Ascended Capital Markets:

Yeah, I'd just like to give my congratulations to you, Doug, and to the entire duals team. The growth that you guys had has just been amazing. My question is, as, you know, you mentioned that demand remains very, very strong. are there any worries of competitors entering this market? And what can duals do to be able to, you know, have the advantages to be able to compete if new entrants come in?

Doug Becker | Chief Executive Officer:

That's a great question, and that's why we manage the business appropriately. So you're going to see some people come into the market, like you just probably saw the press release from Caruso. They're entering the market as far as building 5 to 10 to 20 megawatt modular data centers. They're one of the largest in the business, they build Stargate, they're huge. So that in itself tells us we're in the right market. But what we've done, and this is an incredible piece, I just got back from GTC, and everybody was talking about how they're concerned about deploying with modular because EPs are extremely sensitive to particles, to dust. And Ironically, in the best part about our business, we obtained a patent in September called the Clean Room. We actually have a patent that goes on top of our – it connects to our modular data center that cleans the air before you come in. So all the particles on your body, on your equipment, are blown off, filtered off. Then you walk actually into the data center. That is huge when it comes to deploying because what's going to happen is, the GPU providers like NVIDIA and everybody that makes chips, everybody that makes servers, they won't honor their warranties if the fans get dirty and dust in them. So that is a huge win for us, and it's going to help us, you know, differentiate us from the competitors coming in the market. You will see them, but we are the only ones that have deployed, prime example, 15 pods. I challenge everybody that comes into this business that doesn't have a 3D rendering to to go look at, physically look at their pods. We had a customer fly in from China last week, and they flew into Corpus Christi and toured our pods just to see our manufacturing capabilities. So it looks like there'll be a new customer of ours on the hyperscale side possibly. So we have the experience. We've done it. We can actually show people our market. They can physically go there, see our customers, see gear burning, and see how the facility works. So we welcome the competition, but we're strongly Strong where we sit.

Ed Wu | Analyst, Ascended Capital Markets:

That sounds good. And my last question is, you know, kind of like a longer-term plan. I know you guys have kind of been focused on the rural underserved markets. Is there plans to go into the bigger markets? And also, you mentioned China customers or China partners. Do you anticipate possibly going international?

Doug Becker | Chief Executive Officer:

Thank you. Yeah, great question. Right now our focus is Tier 3, Tier 4 markets, and let me tell you why. The demands to deploy in a Tier 3 market, I can deploy my pods and get access to power in 90 to 120 days. If I go into a Tier 1 market, I'm competing against the larger data centers and the infrastructure that's already in place. we're going to build infrastructure fast. So where do you do that? You go into markets that have accessible power. They've built substations that have 5 to 10 meg available on them, and permitting is a lot quicker. So our focus is going to continue to Tier 3 and Tier 4 markets, and that business sector is huge, and it's going to be huge for the next 10 years.

Tom Leonard | Analyst, River Bay Investments:

Thanks for answering my question.

Doug Becker | Chief Executive Officer:

Yeah, and to answer your international question, Once we start deploying at scale here and move on, we'll be open to international. But right now, our number one focus is in the U.S. into the Tier 3 and Tier 4 markets.

Ed Wu | Analyst, Ascended Capital Markets:

Great. Well, thank you, and I wish you guys good luck.

Doug Becker | Chief Executive Officer:

Thank you, sir. Thank you so much.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Dan Weston with West Capital Management. Please proceed.

Dan Weston | Analyst, West Capital Management:

Yeah, hi. Good afternoon, everyone. Thanks for taking the questions and congrats on the quarter. Doug, a couple of quick points of clarification. I think you mentioned you were expecting to have or you do have five new EDCs in production to be deployed by year end, if I heard that right. Are those five EDCs specific to the GPU as a service contract you just signed?

Doug Becker | Chief Executive Officer:

No, those five EDCs are committed to markets that have been contracted. So there are markets in Georgia, and we're working with a utility to deploy on their network as well. So those are our normal pods that we deploy and that we've deployed. Like the 15 we've deployed, they're identical. All right, okay. Yeah, and let me give some clarification because this might help answer a lot of questions for other folks too. Okay. We're still building our same model. Our core is you go after the education healthcare and local government in these markets. But what we're doing at the factory is we're building the pod with more power. So we're deploying these units, the same concept, the same places, but we're building them more at scale so we can bring in higher density users. So, yeah, so that's the model.

Dan Weston | Analyst, West Capital Management:

Got it. Thank you for that clarification. Back to the first GPU as a service customer that you just recently signed, when do you expect to have those larger pods, if you will, in the ground and expected to generate revenue?

Doug Becker | Chief Executive Officer:

We're on track for July, August. So, you know, with permitting and things like that, I want to say August to you, but we're looking good. So more August timeframes.

Dan Weston | Analyst, West Capital Management:

That's amazing. And as it just kind of ties into the guidance that Leah provided, if Leah, if you're if you're there, I think I wrote down 50 to $55 million of revenue expected for this year. Could you give us a sense of how that revenue breaks down, please?

Leah Brown | Chief Financial Officer:

So, yeah, thank you for that question. So The revenue line that we anticipate for this year, we're expecting definitely on a holistic view to achieve that aggregate. As a company, we don't go into specifics for each business line, but overall, we do anticipate to meet that guidance.

Dan Weston | Analyst, West Capital Management:

Okay. Okay. I understand. And while you're there, you mentioned the PP&E up at 27 million and change. That's obviously a massive increase from last year, but also up 12 million from your Q3. Can you give us a breakdown of what that PP&E is, please?

Leah Brown | Chief Financial Officer:

Absolutely. So, the majority of our PPE is our edge data centers. So, we have 15 edge data centers. And we've also started pre-buying for the next lot that is coming online in 2026. So you, the majority of that, yes.

Dan Weston | Analyst, West Capital Management:

Great stuff. And then last one for me, I'll jump back in. Doug, I think you mentioned that you'd secured the 4.8 megawatts of power for, I assume you're talking about the GPU as a service contract. The initial LOI, I think you mentioned 10 megawatts. dedicated to that project. Could you explain a little bit what the delta is there between the 4.8 and the 10 megawatts?

Doug Becker | Chief Executive Officer:

Sure. So the site is built to 10 megawatts. So there's 10 megawatt available. So they're taking down 4.8 for critical load. So that means I can add to that site quickly up to 10 meg. Now that site can go to 20 meg, but it might take another year to get access to another 10. So the winner here is that site has a capability that's already been transformed down at 10 meg. So there's 10 meg physically available today if I wanted to sell it. So I would just build the pods. I'd build another section of pods to get to the 10 meg. So another 5 meg cluster of pods.

Dan Weston | Analyst, West Capital Management:

And in terms of, you know, real estate, if you will, there's plenty of space there to just drop another 2, 3, or 5 pods down if needed.

Doug Becker | Chief Executive Officer:

Yes, so there's three acres there, and what we've noticed is three acres is plenty. Basically, if you look at our model, you know, if we're deploying five megs, it's really like looking at five school buses.

Dan Weston | Analyst, West Capital Management:

Understood completely. Do you anticipate that your first technology, global technology customer for the GPU as a service will end up taking the whole 10 megs?

Doug Becker | Chief Executive Officer:

Yes, the actual, there's two customers that are, yes, absolutely. They're looking at five more sites at five megs with us right now. Obviously, we've researched, we found five sites with the power there. But we're going to get this one installed and the one in Iowa installed first. And then, you know, then we'll report on how quickly we did it and how the revenue looks. But the demand, I mean, I came back from GTC and there was 21 sites We had 21 inquiries on five to 10 mag sites. That's amazing. The demand in this niche is unbelievable. So like I said, I'm not real worried about other people coming in. Our secret sauce is how we deploy quickly, how we find the power. We have a secret to that. And the other piece is the clean room. I don't see you, prime example, in one of these pods, you're talking $10 to $12 million just in GPU in a pod. So a clean room, I don't understand why you wouldn't go to somebody that has a clean room. It doesn't cost them more.

Dan Weston | Analyst, West Capital Management:

Understood. Yeah. By the way, do you anticipate that you'll be able to disclose who that first technology customer is in the near future?

Doug Becker | Chief Executive Officer:

I'm not sure. It's a very, very, very strict NDA right now. So I think maybe once we prove ourselves to them, it might be an option, but – Put it this way, they're tier one, so we're good.

Dan Weston | Analyst, West Capital Management:

I appreciate that. Let me squeeze one last one and I'll hop back. You mentioned that there was a $10 million backlog in the tech solutions business that you expect to record as revenue for this year. Is that typical for this business where the booking of the contract could take several quarters to actually run through the revenue line?

Doug Becker | Chief Executive Officer:

Yes, exactly. So let me give you an example. So we sell a lot of, and we have a lot of, you know, our funnel is huge. So we have a lot of, like, cabinets, PDUs, fiber connectors. Those are 60 days, 90 days max, right? Well, we book that. We ship it out quickly. But UPSs and other switchgears are six to eight, some of them are nine months out. So that's, you know, we had a big booking towards the end of the year, but it It took three months for us to bill it, right? So a lot of the bigger products take longer. But everything that we're booking that's in the funnel and that you see us report in this quarter, next quarter, we'll all bill this year. Because the majority of it is, I wouldn't say off the shelf, but it's more UPS, PDUs, cabinets, cold aisle containment, that kind of stuff. And there's a lot of it.

Dan Weston | Analyst, West Capital Management:

That's incredible. I really appreciate you taking the time to answer the questions. Congrats to everybody.

Doug Becker | Chief Executive Officer:

Thank you. That's why I'm here. I love the questions. Thank you, sir.

Operator | Conference Operator:

Thank you. Our next question comes to the line of Nico Saxetti with RBC. Please proceed.

Nico Saxetti | Analyst, RBC:

Hey, Doug.

Doug Becker | Chief Executive Officer:

Nico, sir, how are you? Good to hear your voice.

Nico Saxetti | Analyst, RBC:

Yeah, I'm good. Maybe I'll piggyback on Dan's last question here. Okay. So not only is that 10 million of the distribution business, you know, going to actually recognizing revenue, there's 10 million, like a quarter, a typical run rate for that business. Is that a huge quarter? Is that low? You know, obviously not looking for a definitive guidance or signing with an idea of what, you're like expecting or what that capability could be in just like a normalized situation.

Doug Becker | Chief Executive Officer:

Yeah, and we're new to the business, but what we're seeing is, you know, when we can recognize it and how stable it is. So, you know, let's say the funnel is over $150 million, you know, Depending on what the product is.

Nico Saxetti | Analyst, RBC:

To clarify, you said the funnel, like annual capacity, is that – okay. Is that like your high-end number that you could do in there?

Doug Becker | Chief Executive Officer:

The $10 million was over two months, and that was when they first started. So obviously we're looking at a lot greater than that.

Nico Saxetti | Analyst, RBC:

I thought you said the funnel is $150 million. Is that like an annual plan or capacity that you could deal with? Did I hear that number right?

Doug Becker | Chief Executive Officer:

Yeah, that number is from two sales reps that she's hired. That's in their funnel.

Nico Saxetti | Analyst, RBC:

Okay, I got you.

Doug Becker | Chief Executive Officer:

For this year, and that's only for three months of doing business. We just started that group. I mean, look, one data center buys $1.6 billion worth of product, right? So that's normal, believe it or not, in this industry.

Nico Saxetti | Analyst, RBC:

So it would be fair to say, you know, if there was any kind of negative perception around the loss of that $20 million two years, That's exactly right.

Doug Becker | Chief Executive Officer:

That's why we brought it on. And Nico, just real quick, just real quick about that division. Remember, the main reason we brought that division on is In the marketplace right now, everybody knows to build a megawatt, it's anywhere from $10 to $13 million, right, to build a megawatt. Why they're looking at us is I can build a megawatt for $6.5 million. And how do we do that? It's because an infrastructure group has direct to the manufacturer now. So I'm not buying through a Wesco or a Graybar. So 20% to 30% comes off the line because I buy direct.

Nico Saxetti | Analyst, RBC:

So you are offering – something that can be set up substantially quicker than like a traditional football field size data center and at a lower cost is what it sounds like. That's right. Yeah. And you thought of removing some of the lower costs and just go with the shorter time frame and look for a better margin profile. Right.

Doug Becker | Chief Executive Officer:

And we can deploy quicker. Remember that. So, in the CapEx, there's an intention. So, you're deploying five megs at $25 million. It's a big difference.

Nico Saxetti | Analyst, RBC:

So, a lot of what I have are just clarification questions. Obviously, there's a lot of moving parts. It just doesn't make sense of you know, what was the company you had, the AMA, the equities, the software, and then, you know, it's going towards this modular data center, you know, school, hospital, intertenant, you know, the metrics around that were very black and white, like cost, what the revenue opportunity is, and then, you know, it seems like we're kind of pivoting again, and so I just want to make sense of all of these moving parts and Maybe it would be helpful if we could clarify the deck that you have available on your website from February, I think it is. Is this, like, good information? Is this some difference in metrics from what's on the slide versus, like, what was reported? And I just have some clarification questions. I'm just curious, like, how is that in stone? the numbers were off of that specific presentation.

Doug Becker | Chief Executive Officer:

Yeah, so we're actually after, obviously after the call, we're going to update, because now we've recognized and told some information. We're going to update that, but just remember, there's two, and I don't want to make it confusing, I'm trying to, that's why I'm trying to change the model here a little bit. There's two pieces to our business. One is the EDGE data center business, and the one is the infrastructure. The EDGE data center business the GPU business falls under the edge data center business. Remember, it's the same pod. It's the same concept. It's just I'm building them bigger. Just look at the GPU as a different type of customer. So I'm just bringing in different types of customers. So it's the same model. The revenue is a lot higher, obviously, because they're taking power. We make money off of PowerSpace and CrossConnect, right? So the more power we sell, the more money we make. But obviously, the CapEx goes up in the pod cost. The model, you know, and I'm pretty sure we shared that, the model on the GPU is a big difference. Prime example, remember our pod model at 15 cabinets is $350,000 to $400,000 a year. That's the goal, right, out of that? If you compare it to the GPU model, you know, one mag, you're at $1 million a year. So at 4.8 megawatts, you're now at almost a million dollars a month. So why not build the pod bigger and take the customers in that need that power? When all it is for us is at the factory, we just put bigger panels in.

Nico Saxetti | Analyst, RBC:

So when you say the same model... You know, you've talked about the original, the standard version of this. It's going in kind of like tier 2 to tier 3 markets for all areas, whether it's like 500 miles to the data center. What's that?

Doug Becker | Chief Executive Officer:

And you show you're cutting out. It's hard to hear you.

Nico Saxetti | Analyst, RBC:

Yeah, I think I'm having trouble hearing it. I just want to get, like, do you have, it sounds like it totally depends on what unit, so what the metrics are, where it was much more standardized with the other version, the original model. And then, when you say the same model, are they going in the same location, where instead of it being a co-location where you still have the hospital and the school hall, and it's in a rural area, And you're just having less of it available to be leased out, essentially, by maybe other businesses in that town now.

Doug Becker | Chief Executive Officer:

Yep, you're exactly right, Nico. That's exactly right. So our core customers are our anchor customers, which are education, healthcare, and then enterprise in that market, right? The carriers coming in to take space so they can peer and cross-connect to each other.

Nico Saxetti | Analyst, RBC:

You there? Yep.

Doug Becker | Chief Executive Officer:

Someone's cross-talking. I'm sorry about that. But, yeah, Nico, if you can hear me, that's the original model, and that's why we're sticking with that model. We're just adding more capacity to bring those customers in that need higher density. So we're always servicing that market, and that's what helps us get into those Tier 3 and Tier 4 markets, especially with permitting and everything, because we're low on the radar. We're not 10, 20, 30, 40 megawatts. that they have to build out that's draining the community. We're going after power that's already there that's in excess that the utility wants to make money on. So in return, it helps the local community as well in tax dollars. So they're actually welcoming us.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Carl Weiss with Grow Funds. Please proceed.

Carl Weiss | Analyst, Grow Funds:

Hey, Doug. How you doing?

Doug Becker | Chief Executive Officer:

Good, sir. How are you? Long time no see.

Carl Weiss | Analyst, Grow Funds:

Yeah. I was wondering if, you know, you can kind of talk to, you know, at scale, you know, as you go into the second half, you know, what does the, you know, the model look like from a gross margin perspective? And then with all of the, you know, selling the rail business and winding down the management contract, What kind of op-ex should we expect, you know, on a go-forward basis?

Doug Becker | Chief Executive Officer:

We'll talk real quick. Let me take over the rail. So the rail business, we're hoping to offload or, you know, decommission that business, offload it in the next 60 days. That's the goal on that. So there's no burn on that business for us right now. So hopefully we'll exit that. It frees up. A lot of SG&A, so we'll obviously not carry that load of employees and all the other expense. So that's a good thing, and that should happen in the next 60 days. But I'll turn it over to Leo on your numbers there.

Leah Brown | Chief Financial Officer:

Sure. So, Carl, good afternoon. Yeah, so we should expect to see a gross margin improve the second half of the year. Just a reminder, with the revenue recognition for some of our business lines, you are going to see that revenue recognized in the second half of the year. So we're looking at gross margin, you know, around 7 to 6%.

Carl Weiss | Analyst, Grow Funds:

Gross margin, shouldn't it, well, you know, the center, the data centers themselves are what, 70 to 80 type gross margins?

Leah Brown | Chief Financial Officer:

Yes, exactly. So we should see around, for gross margin, you're about $7 million, $6 million. Oh, got it. Yeah, exactly. So just, you know, when we report here in May, you'll see our Q1, but you'll be able to see that revenue picking up in Q3 and Q4.

Carl Weiss | Analyst, Grow Funds:

And OpEx should actually be coming down at the same time.

Dan Weston | Analyst, West Capital Management:

Yes, yes.

Carl Weiss | Analyst, Grow Funds:

Okay. And then just, Doug, as you sit here today, how long do you think this demand environment will last?

Doug Becker | Chief Executive Officer:

I think the high demand, like what we're seeing now, like when I go to GTC and there's 21 people trying to talk to me to sign contracts, I think that is going to be strong for the next three to four years. And then what's critical about our business is, the main data centers that are out there, and I think we might have talked about this before, the main data centers that are out there are going to look to us as a hub and spoke because they're going to want to capture those markets that were in, like the Dumas, like the Corpus Christi, Lubbock, these Tier 3 markets that we're going in. They need to have compute out there. So does the mobile operators. When we go to, you know, 6G, we're at 5G, we're going to 6G now. They need to compute out at what we call the eyeballs. So all that data is going to take a lot of fiber to get back, a lot of network, right? So they want to be able to own that network, and they want to own that customer. The best way to do that is obviously buy these many data centers everywhere, bring them back to the core, because to be honest with you, they're all going back to a core anyway. So it makes complete sense. So I think, you know, the growth is going to be very strong and extremely strong in the 3 to 10 meg range, Because right now, and I just did this exercise for another potential client, he needed two megs worth of power. Two megs, which doesn't sound like a lot nowadays, but it's a lot. I couldn't find it throughout the country in one data center. I'm talking about a legacy data center. So the market is looking past the need of the 10 to 15 meg data centers. And prime example, like Johnson & Johnson. They keep their stuff at a local data center. They go to like a QTS. They go to a Flex Central. That's where they house. They don't go to a hyperscale. They don't go to these big ones they're building. We're losing sight that the demand is there, and they're still growing. So I think you're going to see the market for the next five to ten years focusing on that 10 to 15 megawatt range. So we have a long haul, but we do have to build quickly.

Ed Wu | Analyst, Ascended Capital Markets:

Thank you. Yes, sir. Tell the operator one more question.

Operator | Conference Operator:

Our next question comes from the line of Tom Leonard with River Bay Investments. Please proceed.

Tom Leonard | Analyst, River Bay Investments:

Hey, Doug. Tom calling.

Doug Becker | Chief Executive Officer:

How are you?

Tom Leonard | Analyst, River Bay Investments:

I'm doing great. You provided a lot of color on the GPU as a service, the economics, the revenues, that. I'm trying to think about the revenue exit run rate this year. And so, could you put a more color on the high density EDC, how many total megawatts, and what's the revenue value per megawatt for that high density co-location customer versus the, you know, lithium-ion GPUs that you purchased?

Doug Becker | Chief Executive Officer:

Sure. On the GPU model, let me back up. The goal for this year is to deploy 25 megawatts. Now, that comes through, you know, 300 kW pods that we deploy right now. We have 15 of them on the ground at 300 kW. But the total megawatt, because that's what we're being judged by right now, everybody's being judged by megawatts, not by kilowatts or cabinets. So the plan is 25 megawatts. And when we look at the GPU model, For every megawatt, we're looking at $2 million a year in revenue. That's right on the head. That's what they're billing. That's what the industry shows. And that's what we're building to. So it obviously is a very strong model to house GPU for customers.

Operator | Conference Operator:

Thank you. And with that, that concludes today's question and answer session. I'd like to pass the call back over to Doug for any closing remarks.

Doug Becker | Chief Executive Officer:

Well, I'd like to thank everybody for joining today, and we look forward to speaking with you in Q1 earnings. Thank you so much for your time.

Operator | Conference Operator:

Before we conclude today's call, I would like to provide Duo's safe harbor statement that includes important cautions regarding forward-looking statements made during this call. The earnings call contains forward-looking statements within the meanings of the Securities Litigation Reform Act of 1995. Forward-looking terminology such as believes, expects, may, will, should, anticipates, plans, and their opposites or similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties. risks, and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based and could cause DUO's technologies groups actual results to differ materially from those anticipated by the forward-looking statements. These risks and opportunities include, but are not limited to, those described in the Item 1A in DUO's annual report on Form 10-K, which is expressed incorporated herein by reference. and other factors as may periodically be described in DUO's filings with the SEC. Thank you for joining us today for DUO Technologies Group fourth quarter and full year 2025 earnings call. You may now disconnect.