NASDAQ:PENG Q4 2025 Earnings Call Transcript

Generated on 11/25/2026

Victoria | Conference Moderator:

Good afternoon. Thank you for attending today's Penguin Solutions fourth quarter and full year 2025 financial results. My name is Victoria and I'll be your moderator today. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. If you'd like to ask a question, please press star followed by one on your telephone keypad. I would now like to pass the conference over to our host, Suzanne Smith. Thank you. You may proceed, Suzanne.

Suzanne Smith | Host:

Thank you, operator. Good afternoon, and thank you for joining us on today's earnings conference call and webcast to discuss Penguin Solutions' fourth quarter and full year fiscal 2025 results. On the call today are Mark Adams, Chief Executive Officer, and Nate Olmstead, Chief Financial Officer. You can find the accompanying slide presentation and press release for this call on the investor relations section of our website. We encourage you to go to the site throughout the quarter for the most current information on the company. I would also like to remind everyone to read the note on the use of forward-looking statements that is included in the press release and the earnings call presentation. Please note that during this conference call, the company will make projections and forward-looking statements, including but not limited to statements about the company's growth trajectory and financial outlook, business plans and strategy, and existing and potential collaborations. Forward-looking statements are based on current beliefs and assumptions and are not guarantees of future performance and are subject to risks and uncertainties, including, without limitation, the risks and uncertainties reflected in the press release and the earnings call presentation filed today, as well as in the company's most recent annual and quarterly reports. The forward-looking statements are representative only as of the date they are made and, except as required by applicable law, we assume no responsibility to publicly update or revise any forward-looking statements. We will also discuss both GAAP and non-GAAP financial measures. Non-GAAP measures should not be considered in isolation from, as a substitute for, or superior to our GAAP results. We encourage you to consider all measures on analyzing our performance. A reconciliation of the GAAP to non-GAAP measures is included in today's press release and accompanying slide presentation. And with that, let me turn the call over to Mark Adams, CEO. Mark?

Mark Adams | Chief Executive Officer:

Thank you, Suzanne. Welcome to Penguin Solutions' fourth quarter and fiscal year 2025 earnings call. Today, I'll walk through both our Q4 and full year results, providing updates on each of our business segments and sharing how we are positioning the company for long-term growth. Fiscal 2025, the transformational year for Penguin Solutions as we continue to evolve from a holding company structure into a leading provider of AI infrastructure solutions. In addition to delivering 17% top-line growth, 190 basis points of non-GAAP operating margin expansion, and a 53% increase in non-GAAP diluted EPS, we made meaningful progress positioning the company for long-term success. Key accomplishments included expanding our advanced computing pipeline and adding several new customers to the Penguin Solutions franchise. supporting our ongoing customer diversification strategy, deploying our first international AI infrastructure implementation, developing and expanding key partnerships with Nvidia, CDW, Insight, and Dell, rebranding the company as Penguin Solutions, moving our corporate domicile to the United States, closing a $200 million investment from SK Telecom, refinancing our debt to strengthen the balance sheet, and strengthening our leadership team with

the appointments of Tony Fry, formerly of NetApp, as our SVP and Chief Revenue Officer, and Ted Gillick, formerly of Dell, as our SVP of Strategy and Corporate Development. I'll now turn to our financial results for the fourth quarter and full year. We delivered solid fourth quarter financial results. Revenue for Q4 was $338 million, an increase of 9% year-over-year. Non-GAAP gross margin was 30.9%. Non-GAAP operating income reached $39 million, a 16% increase year-over-year with non-GAAP operating margin at 11.6%, up 80 basis points. Non-GAAP diluted earnings per share was 43 cents, up 18% from the prior year. Our fourth quarter performance rounded out a strong fiscal year. For the full year, revenue grew 17% year over year. Non-GAAP gross margin remained steady at 31%, and non-GAAP operating margin improved by 190 basis points to 12.2%. Non-GAAP diluted EPS was $1.90, an increase of 53% compared to fiscal 2024. We continue to see signs of broad AI adoption, particularly within verticals such as financial services, energy, federal, and education. As we've noted previously, our expectation has been that the AI pilot systems deployed across industries in 2023 and 2024 could lay the groundwork for broader production scale rollouts in the years ahead. We're now beginning to see indications of this transition with early stage corporate build outs taking shape. Notably, Penguin Solutions was recently selected by a Tier 1 U.S. financial institution to manage an AI infrastructure deployment, the institution's first on-premise gen AI data center implementation. We believe this win reflects the growing confidence enterprises have in our ability to deliver scalable, high-performance infrastructure, and we look forward to formalizing this engagement in due course. At Penguin Solutions, we support customers in navigating the complexity of AI adoption by combining deep technical expertise in advanced cluster implementations with a comprehensive portfolio of hardware, software, and managed services. We collaborate with customers to design, deploy, and operate these environments with a focus on time to revenue, performance, availability, and long-term reliability. Our solutions are primarily targeted at deployment serving Fortune 500 enterprises, educational institutions, government entities, and systems integrators, and neo-cloud service providers. While our go-to-market strategy has traditionally focused on direct customer relationships, we are actively investing in forming strategic partnerships that we believe can expand our reach and open new long-term growth opportunities. Our foundation is built on over 25 years of experience in large scale deployments, beginning with our roots in high performance computing, or HPC. We believe this expertise gives us an advantage in integrating complex AI building blocks, such as power and cooling systems, compute, memory, storage, and networking. This foundation enables us to deliver the kind of infrastructure that today's enterprise customers need to drive innovation, scale efficiently, and stay ahead of the curve in enterprise AI. I'd like to provide additional detail on our business segments. Advanced computing revenue for the fourth quarter of fiscal 2025 was $138 million, up 4% sequentially from Q3. For the full fiscal year, advanced computing revenue reached $648 million, reflecting 17% year-over-year growth. Within advanced computing, our HPC AI revenue from non-hyperscalers increased 75% year-over-year, highlighting progress on our customer diversification strategy. Since our last call, We completed the design, build, and deployment of HAON, one of South Korea's largest and most powerful GPU as a service systems developed by SK Telecom for the Korea Ministry of Science and Technology as a key element in the country's sovereign AI initiative. We now manage the system on an ongoing basis. We also launched several new AI projects, including with a Fortune Global 500 multinational consumer products company, a Fortune 100 federal systems integrator, and a Fortune 50 financial institution. This last project is in addition to the win from a different tier one financial institution that I mentioned earlier. We're also pleased with the growth in our new customer opportunities. In fiscal 2025, pipeline bookings and revenue from new customers grew nicely, reflecting the ongoing demand for our expertise and solutions. As we've noted on prior calls, revenue in this segment can be lumpy, with large deployments in one period not necessarily reoccurring in the next. That said, we remain encouraged by the level of customer interest in our solutions and the long-term growth potential of these relationships. Our core competency and successfully managing large-scale AI infrastructure build-outs helps customers accelerate their time to a live production environment. We believe our customers value our technology agnostic approach, which allows us to create a unique overall solution that meets their specific AI infrastructure needs. Beyond our hardware building blocks, we continue to invest in our Penguin ICE clusterware software. a platform that helps customers manage infrastructure assets. Post deployment, our Penguin Solutions Services Organization can provide ongoing operational support to sustain the high performance and high availability of their systems. Our integrated memory segment, which sells products under the Smart Modular brand, delivered $132 million in revenue for the fourth quarter and $464 million in

revenue for the full fiscal year, representing a 30% increase compared to fiscal 2024. This growth was driven by strong demand from customers in computing, networking, and telecommunications. We are optimistic about our memory demand in the near term as large enterprises seek out higher performance and reliability memory solutions to support both traditional use cases and increasingly complex AI applications. In line with this demand, we are seeing promising early interest in our compute express link or CXL family of products. As customer qualification efforts continue to expand, we believe we are well positioned for growth as adoption of CXL scales. In memory, our R&D investments are focused on next generation technologies. One key area is memory pooling. which has the potential to significantly expand bandwidth and improve memory capacities in GPU environments. We continue to invest in the design of smart optical memory appliance, or OMA, with initial product shipments targeted for late calendar 2026 to early 2027. This new offering will be designed to enable memory scaling of the industry's fastest high bandwidth memory, or HBM, which is today a limiting factor in AI cluster performance and efficiency. With a strong backlog, ongoing technology transitions such as DDR4 to DDR5, and a roadmap that includes innovations like CXL and OMA, we believe memory will be an important growth engine for Penguin Solutions. Optimize LED under the Cree LED brand. Cree's fourth quarter revenue came in at $67 million, an increase of 9% compared to the prior quarter. Full year revenue was $256 million, roughly flat year over year, reflecting a combination of secular and macroeconomic headwinds in the LED market. Despite these challenges, we achieved a 250 basis point improvement in non-GAAP operating margin in fiscal year 2025. As we move into fiscal 2026, Prius focused on capturing market share, operating efficiently, protecting our intellectual property, and driving operating profit growth. Fiscal 2025 was a defining year for Penguin Solutions. We took meaningful steps to transform the company and sharpen our focus on becoming a leading provider of AI infrastructure solutions. We believe that these efforts have strengthened our foundation and positioned us well for long-term success. Looking ahead to fiscal 2026, we believe we can sustain our growth momentum with the following strategic priorities. Growing our enterprise customer base and AI infrastructure deployments. Driving innovation across our hardware, software, and services portfolio to create sustainable differentiation. expanding our strategic partnerships to enhance Penguin's go-to-market efforts, operating with discipline and efficiency to position the company for long-term success, and further strengthening our balance sheet to support investments in scale and new capabilities. In setting these priorities, our intention was to align with the long-term interest of our shareholders, customers, and employees. In closing, I want to thank our global team for the dedication and performance in FY 2025. We delivered top line growth, improved profitability, strengthened our balance sheet, and expanded the Penguin Solutions customer base. We believe we are well positioned for future success in FY 26 and beyond. Let me stop and hand it over to Nate for a detailed review of 2025 financials. and their outlook for FY2026.

Nate Olmstead | Chief Financial Officer:

Thanks, Mark. I will focus my remarks on our non-GAAP results, which are reconciled to GAAP in our earnings release tables and in the investor materials available on our website. Now let me turn to our fourth quarter and full year results. In the quarter, total Penguin Solutions net sales were $338 million, up 9% year over year. Non-GAAP gross margin came in at 30.9%, which was flat year over year. Non-GAAP operating margin was 11.6%, up 0.8 percentage points versus last year, and non-GAAP diluted earnings per share were 43 cents, up 18% from last year. For the full fiscal year 2025, total company net sales were $1.37 billion, up 17% year over year. and aligned with the outlook we initially provided in April and better than the outlook we provided at the start of the fiscal year. Full year non-GAAP EPS was $1.90, up 53% versus the prior year and better than the increased outlook we provided last quarter. In the fourth quarter, our overall services net sales totaled $63 million, up 5% versus the prior year. Product net sales were $275 million in the quarter, up 9% versus the prior year. Net sales by business segment were as follows. In advanced computing, Q4 net sales were $138 million, which was 41% of our total net sales and down 7% year over year. For the full year, advanced computing delivered $648 million of net sales, or 47% of total company net sales and up 17% year over year. Our strong full-year advanced computing growth was driven by our HPC and AI business, which grew 34%. Notably, within our HPC AI business, product and services sales to our

non-hyperscale customers were up 75% for the full fiscal year. For integrated memory, in Q4, net sales were $132 million, which was 39% of total company net sales and up 38% year-over-year. For the full year, memory net sales totaled $464 million or 34% of total net sales and up 30% year-over-year. And in optimized LED, net sales were $67 million or 20% of total company net sales and up 2% year-over-year. For the full year, LED delivered $256 million of net sales or 19% of total company and down 1% versus the prior year. Non-GAAP gross margin for Penguin Solutions in the fourth quarter was 30.9% flat year over year with margin pressure from a higher mix of integrated memory net sales offset by improved margin rate across all three business segments. Non-GAAP gross margin was down 0.8 percentage points sequentially with lower margin rates in advanced computing partially offset by higher margin rates in both integrated memory and optimized LED. For the full fiscal year, gross margins were 31% in line with our prior outlook and down 0.9 percentage points year-over-year due to growth in our memory and AI hardware businesses, which have lower than company average margins but are addressing fast-growing market opportunities. Non-GAAP operating expenses for the fourth quarter were $65 million, up 5% year over year, and up 1% sequentially. Operating expenses as a percentage of net sales were down both year over year and quarter over quarter, driven by higher net sales volumes and modest spending increases. For the full fiscal year, non-GAAP operating expenses were $257 million, up 1% year over year, and down 2.9 percentage points as a percent of net sales due primarily to strong top line growth and disciplined expense management. Q4 non-GAAP operating income was $39 million, up 16% year over year and up 2% versus last quarter. The combination of net sales growth and operating expense management translated into a 0.8 percentage point increase in operating margin versus Q4 last year. This is our fifth consecutive quarter of non-GAAP operating margin expansion year over year. For the full fiscal year, non-GAAP operating income was $168 million, up 39% year over year, and non-GAAP operating margin improved 1.9 percentage points to 12.2% of net sales. Non-GAAP diluted earnings per share for the fourth quarter were 43 cents, up 18% versus the prior year. For the full year, non-GAAP diluted EPS was $1.90, up 53% versus the prior year, and 5 cents better than the high end of our outlook provided in July. Adjusted EBITDA for the fourth quarter was $43 million, up 11% year over year, and for the full year was $187 million, up 28% versus the prior year. Turning to balance sheet highlights, for working capital, our net accounts receivable totaled $308 million, compared to $252 million a year ago, with the increase driven by higher sales volumes and variations in sales linearity across the quarters. Days sales outstanding came in at 51 days, up from 49 days in the prior year quarter. Inventory totaled $255 million at the end of the fourth quarter, up from 151 million at the end of last year due to higher sales volumes and ordered linearity. Days of inventory was 51 days, up from 36 days a year ago, primarily due to the positioning of inventory for shipment early in Q1 FY26. Accounts payable were $267 million at the end of the quarter, up from $182 million a year ago due primarily to higher sales volumes and the timing of purchases and payments. Days payable outstanding was 54 days compared to 43 days last year due to the timing of purchases and payments. Our cash conversion cycle was 49 days, an increase of seven days compared to last year due to slower inventory turns resulting from materials positioned for shipment early next quarter. Consistent with past practice, days sales outstanding, days payables outstanding, and inventory days are calculated on a gross sales and gross cost of goods sold basis, which were $550 million and $453 million, respectively, in the fourth quarter. As a reminder, the difference between gross and net sales is primarily related to our memory business's logistics services, which are accounted for on an agent basis, meaning that we only recognize the net profit on logistics services as net sales. Cash, cash equivalents, and short-term investments total $454 million at the end of the fourth quarter, up $64 million from the prior year and down $282 million sequentially. The year-over-year fluctuation was due primarily to proceeds from the issuance of preferred shares, cash generated by the business, and the repayment of our term loan in Q4. The sequential decline was primarily driven by the repayment of our term loan. Fourth quarter cash flows used by operating activities from continuing operations totaled $70 million, compared to $12 million used by operating activities from continuing operations in the prior year quarter. The increased use of cash in the quarter versus last year was due primarily to investments in inventory to support shipments at the start of Q1 FY26. For the full fiscal year 2025, operating cash flow from continuing operations was $113 million, an increase of 8% versus the prior fiscal year. We spent approximately $296,000 to repurchase 16,000 shares in the fourth quarter under our stock repurchase program. Since our initial stock repurchase authorization in April 2022, we have used a total of $113 million to repurchase 6.6 million shares through 2025. Earlier today,

we announced that our board has authorized a $75 million increase in our stock repurchase authorization bringing our total remaining authorization to $112 million. As mentioned in our Q3 earnings call, in Q4, we completed a refinancing of our existing credit facility. We paid off the $300 million remaining on our term loan using $200 million of cash from our balance sheet and $100 million of borrowings from a new revolving credit facility. This refinancing transaction significantly reduced our leverage, extended our debt maturities, and is expected to lower our debt service costs as we reduced our total gross debt by $200 million. Our net debt at the end of the fiscal year was $16 million. For those of you tracking capital expenditures and depreciation, capital expenditures were $3 million in the fourth quarter and $9 million for the full year. And depreciation was $5 million for the quarter and $21 million for the full year. And now turning to our outlook. Coming off a strong fiscal year 25, we believe that our strategy and execution capabilities position us well for long term profitable growth. For fiscal 26, we are initiating an outlook for net sales to grow 6% plus or minus 10% versus the prior year. There are a few important assumptions to keep in mind with regard to this outlook. First, As previously disclosed in our annual and quarterly filings, we are in the process of winding down our Penguin Edge business, which is part of our advanced computing segment. We expect sales from these Penguin Edge products to essentially cease at the end of this calendar year and have included this assumption in our outlook. While this will result in the phase out of some profitable business, Penguin Edge has become a smaller portion of our overall portfolio and in the long term, we do not expect a material impact to our growth trajectory. Second, we believe that we will continue to diversify our customer sales mix, and we have assumed zero hardware sales in FY26 to hyperscale customers, as we don't currently have line of sight to such business in this fiscal year. To be clear, and importantly, we do expect our hyperscale services business to continue in FY26, and those sales are included in our outlook. The combined effect of these two assumptions in our FY26 outlook is a 14 percentage point unfavorable year-over-year impact to our total company net sales growth. Last, you may notice that the net sales growth range in our outlook is wider than last year. While we entered this year with a stronger pipeline of AI compute opportunities than last year, we expect our sales volumes to be higher in the second half of the year than in the first half. You'll recall that in FY25, the opposite was true as we had a strong first half of hardware shipments to our large hyperscale customer. That shipment timing led to approximately 52% of our total company sales coming in the first half of fiscal 2025. By comparison, for fiscal 26, the midpoint of our outlook assumes approximately 46% of our sales come in the first half of the year. So with our growing base of AI compute opportunities and our expectation of a more backend loaded year, we felt a wider net sales outlook range was prudent to reflect a broader set of potential outcomes. With that said, our full year net sales outlook reflects the following by segment. For advanced computing, we expect full year net sales to change between minus 15 and plus 15% year over year. This outlook includes the Penguin Edge and hyperscale hardware sales impact mentioned earlier. For memory, we expect net sales to grow between 10 and 20% year over year. And for LED, we expect net sales change between minus 5 and plus 5% year over year. Our non-GAAP gross margin outlook for the full year is 29.5%, plus or minus one percentage point. The decline in gross margin outlook versus FY25 is primarily due to the wind down of the high margin Penguin Edge business, as well as growth in lower margin businesses such as memory and AI hardware. New AI customer wins typically begin with upfront hardware net sales at lower margin during the implementation phase, and we aim to follow those engagements with higher margin recurring software and services sales. As a result, we anticipate some near-term gross margin pressure as we engage in initial infrastructure deployments, but we view these upfront investments as an important foundation for durable high margin growth over time. For non-GAAP operating expenses, we expect a full year total of $255 million, plus or minus $10 million. For non-GAAP full-year diluted earnings per share, we expect approximately $2, plus or minus 25 cents. Our FY26 non-GAAP diluted share count is expected to be approximately 55 million shares. Due primarily to changes in the geographic mix of our earnings and benefits from our recently completed U.S. redomiciliation, we are lowering our FY26 and long-term non-GAAP tax rate to 22%. which reflects currently available information. While we expect to use this normalized non-GAAP tax rate throughout FY26 and beyond, the long-term non-GAAP tax rate may be subject to changes for a variety of reasons, including the rapidly evolving global and U.S. tax environment, significant changes in our geographic earnings mix, or changes to our strategy or business operations. Our outlook for fiscal year 2026 is based on the current environment, which contemplates, among other things, the global macroeconomic environment and ongoing supply chain

constraints, especially as they relate to our advanced computing and optimized LED businesses. This includes extended lead times for certain components that are incorporated into our overall solutions, impacting how quickly we can ramp existing and new customer projects. Overall, we believe our focused execution, disciplined expense management, and balance sheet strength provide a strong foundation for sustained profitable growth. We expect these qualities to support our continued progress as we pursue opportunities to enhance long-term shareholder value. Please refer to the non-GAAP financial information section and the reconciliation of GAAP to non-GAAP measures tables in our earnings release and the investor materials on our website for further details. With that operator, we are ready for Q&A.

Victoria | Conference Moderator:

Great. Thank you so much. We will now begin the question and answer session. If you would like to ask a question, please press star followed by 1 on your telephone keypad. If for any reason you would like to remove that question, please press star followed by 2. Again, to ask a question, press star 1. As a reminder, if you're using a speakerphone, please remember to pick up your handset before asking a question. We'll pause here briefly as questions are registered. All right, our first question comes from the line of Kevin Cassidy. with Rosenblatt Securities. Your line is now open.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Thank you. Thanks for letting me ask a question, and congratulations on the strong fiscal year 25. Thank you for the information about your hyperscale customer, but can you say, is their project over, and would you say that, you know, going forward, we should just take them out of the the forecast, or are you still active in potential more hardware deployments?

Mark Adams | Chief Executive Officer:

Kevin, thanks for the question. We don't look at it like the project's over. We have ongoing services with the customer and still are in discussions for future development opportunities. It's just that in our outlook for the year fiscal 2026. We don't anticipate any non-service revenue or systems hardware revenue in the year. I'll let Nate comment.

Nate Olmstead | Chief Financial Officer:

Yeah, that's right. I think, you know, last year we entered the year with some visibility to some hardware shipments from the hyperscalers and just wasn't the case this year. So coming into this year, we thought it made sense to just make the assumption that we wouldn't have any hardware revenue from hyperscalers this year. But as Mark said, we continue to have very good relationship with them and the services revenues continue.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, great. Thanks. And, you know, also exciting news with the SK Telecom and landing one client with that. And there was a lot of news last week about SK Telecom even being awarded or some business with OpenAI in Berea. Is there any participation availability for Penguin in that relationship?

Mark Adams | Chief Executive Officer:

That's something we can't address or talk to today, Kevin. What I would say is the referenced implementation in our pre-recorded material was a great opportunity for the company. It's our first international deployment of significant scale. And we went from order to go live in just about two months. And it was a significant validation of our capabilities, our rapid deployment framework. And we really value the relationship with SK Telecom, but we're not able to comment on any future opportunities at this time.

Nate Olmstead | Chief Financial Officer:

Kevin, I'll just add to that. Last quarter, You saw in our filings when we initially booked the deal, it was for hardware. Since then, we've also added services as well. So it's great to see that part of that transaction and the relationship with SK being strong.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay. And maybe just to add on to that a little bit, in the filing, I think it was $34.6 million. Will that be recognized over the next couple quarters, or when does that get recognized?

Nate Olmstead | Chief Financial Officer:

So we recognize that portion in Q4, but we'll have more in FY26.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, great. I'll get back in the queue. Thanks.

Victoria | Conference Moderator:

Thank you for your questions. Our next question comes from the line of Michael Ink with Goldman Sachs. Your line is now open.

Michael Ink | Analyst, Goldman Sachs:

Hi. Good afternoon. Thank you for the question. I wanted to just ask about the penguin edge and combined impact with with hardware and revenue for next year, I think you mentioned a 14 percentage point headwind to revenue growth to the total company. You know when I when I do the math I think that implies a 28 percentage point impact to advanced computing. Is that the right way to think about it? How would you think about advanced computing growth next year? Kind of X these items. And could you just remind us why it kind of strategically makes sense to exit the Penguin Edge business, which I think was about 10% of the segment. But we'd love to hear your general thoughts there. Thank you.

Mark Adams | Chief Executive Officer:

Thanks for the question, Michael. I'm going to answer the last part of your question first and then hand it over to Nape. to talk about the financial impact and your question on impact of the other elements. It really wasn't a decision that we could stay or not stay. We had two clients in our Penguin Edge business that made up a significant part of that business. And as we announced in our filings, we were going through some last-time

buys and were winding down the business. And over time, we were just getting better visibility towards the end of our fiscal 25 to what the impact would be in 26. So it wasn't really a choice of should we stay in a strategic area or not. It was two large customers that were winding down on a prior generation of a product and that they were not renewing.

Nate Olmstead | Chief Financial Officer:

Yeah. Hey, Mike. And so I think on your math, you're roughly right. You know, advanced computing is about 47% or 50% of total company sales. So that 14 points all sits within advanced computing, which means it's about 28 to 30% of advanced computing revenue from FY25.

Michael Ink | Analyst, Goldman Sachs:

Great. Thank you. And if I could just follow up, please. Um, so if the, you know, underlying, um, you know, is growing closer to the 30 to 45, um, could you just maybe talk about, you know, the key areas of momentum for advanced competing that you're seeing for next year? Is it just, you know, more of those customer wins that you talked about, um, you know, converting into revenue and, um, maybe just kind of expand a little bit more in terms of the, the wideness of the range. I know you had made some comments earlier during the call. Thank you.

Mark Adams | Chief Executive Officer:

Sure. Let me, let me take a shot at that one. When you think about our model and, and we've talked about customer diversification for some time, we've done a pretty good job at the, at the launching of going to market resources into a broader set of customers and Those target enterprise customers plus federal opportunities and those in the education sector, when you combine that into a target set of customers for us, we engage with these customers. We bring them the value proposition we have. We try to identify funded projects that would allow us to utilize our capabilities in helping accelerate our customers' AI implementation. once we get that opportunity to bid on a proposal or a request for proposal, we deliver that, and that starts the beginning of a pipeline opportunity, and our pipeline is growing. Now, pipeline is not a booking, as we all know, but the pipeline opportunities are growing as are just the number of customers that we're engaged with, And so as you talk about the offset to some of these headwinds, we're continuing to add customers to the franchise and some really notable global brands and their respective industries. And we're excited about the direction we're heading. And we're looking to convert those pipeline opportunities into bookings and eventually revenue.

Nate Olmstead | Chief Financial Officer:

Yeah, I mean, I think just like building on what Mark said, I think, you know, it's part of our diversification of our customer base is what you're seeing reflected in the outlook. And as I mentioned in my prepared remarks too, 75% growth in the HPCAI business from non-hyperscalers, I think it's just a really positive data point for us from FY25. And, you know, we think that we can continue to grow at a very fast clip in those customers in FY26.

Michael Ink | Analyst, Goldman Sachs:

Great. Thank you, Mark. Thank you, Nate. Thank you.

Victoria | Conference Moderator:

Thank you for your questions. Our next question comes from the line of Sumit Chatterjee with JP Morgan. Your line is now open.

Sumit Chatterjee | Analyst, JPMorgan:

Hi. Thank you. Thanks for taking my questions. I have a couple, and maybe I'll sort of give you both at the same time. You did mention better second half compared to the first half, and maybe just if you can dive into what's giving you that visibility with some of your customers, and is it really more coming from advanced computing visibility, or is it more memory-driven? And then just specific to memory, when you are guiding to 10% to 20% growth, just curious how much of that is maybe somewhat pricing-driven, given sort of what's happened with the underlying commodities here, and what are the margin implications of what we're seeing on the commodity front feed into your sort of overall systems on the memory side? Thank you.

Nate Olmstead | Chief Financial Officer:

Let me take the memory one first. So you're right, obviously prices are starting to increase, and that affects a portion of our portfolio. It's not all of it. Important to keep in mind that we generally operate in memory on a value-add basis, right? And so as memory prices increase, we can generally pass along those price increases, but we don't get additional margin from that. So you would see an increase in revenue, but you would see a decrease in margin rate or really no increase in profit dollars. because we operate on this value-add basis. I would say in terms of the outlook, listen, I think I put a little bit of price increase probably into the high end of the range for memory, but not a lot. We'll see how things play out there. I think currently we feel good about the backlog that we've been able to build for memory going into Q1. And we have pretty good visibility, I'd say, into the first half on memory. You mentioned the second half being stronger than the first half. in our outlook, and mostly that reflects the AI business. You know, Mark mentioned about the strength of the pipeline, and, you know, we haven't converted those into bookings yet, and so the outlook really reflects that, where we have a strong pipeline and some good opportunities, some of which we expect to convert into bookings, but they will be booked later in the first half into the second half and expect revenue in the second half of the year. Thank you.

Victoria | Conference Moderator:

Thank you for your questions. Our next question comes from a line in Andabara with Loop Capital Markets. Your line is now open.

Andabara | Analyst, Loop Capital Markets:

Yeah. Hey, thanks a lot. Yeah, thanks, guys, for taking the question. I have a couple if I could. So just going back on the apples to apples revenue growth, you know, sort of when you back out, back out the meta hardware and the Penguin solutions or the, sorry, the edge business. So is that to say, yeah, thanks. So if it's a 14% impact a year over year growth, is that to say that Apple's dad, like on a pro forma basis, you'd really be guiding 20% growth?

Nate Olmstead | Chief Financial Officer:

Yeah, the way I think about it.

Andabara | Analyst, Loop Capital Markets:

Am I totally off?

Nate Olmstead | Chief Financial Officer:

Well, let me explain it to you this way and see if it makes sense. 14% of our revenue in FY25 came from the Penguin Edge business and the hardware from hyperscalers, right? So having included that revenue in the FY26 outlook. So yes, if you wanted to remove that from FY25 and have apples to apples with FY26, you would have a calculated growth rate around 20%.

Andabara | Analyst, Loop Capital Markets:

It would be. I got it. And that's helpful. That's helpful, Nate. Thanks. And then, Nate, the 75% growth from non-hyperscale HPCAI, can you give us a sense? I mean, I guess you're giving us the bits we can back into that, I guess, right, with the overall guide. Is that something we can back into, or do we need sort of more parts?

Nate Olmstead | Chief Financial Officer:

You're talking about how much revenue that generates?

Andabara | Analyst, Loop Capital Markets:

I guess, I think the comment was, yeah, I think the comment was in 2025.

Nate Olmstead | Chief Financial Officer:

Yeah, so if you look at advanced computing, you know, there's the AI business, HPCAI business, there's Stratus, and there's Penguin Edge. Focusing on the HPCAI business, which is obviously our strategic focus, within that you have sort of hyperscale business and non-hyperscale business. And the non-hyperscale portion of that grew 75% in fiscal year 2025. I'm just trying to zero in really on that strategic focus area for us.

Andabara | Analyst, Loop Capital Markets:

Totally. And I guess what I'm wondering is, given the guidance parameters you've given us for the different businesses for fiscal 26, are we able to back into what's implied for that growth in fiscal 26? Or is that something that we need more information to figure out?

Mark Adams | Chief Executive Officer:

I think we're basically discussing a trend that happened in 25. And what we're suggesting is that with that focus, we're trying to leverage that and build off that to deliver on the plan for 26. I don't think there's an implied association with what happened in the report for the 25 outcome in the 26 number.

Nate Olmstead | Chief Financial Officer:

Yeah. Ananda, I think you can kind of get to a range with data that we've given you. But the other thing I would just add to that is, you know, most of the guidance range mostly reflects opportunity in that HPC AI space for non-hyperscale customers. So that's where we're seeing that pipeline build, right? And so it's a wide range on advanced computing because of that. We have visibility to opportunities, but not visibility yet to the bookings. And so I left the range wider for advanced computing than I did on LED or memory, which you see have tighter ranges on the revenue outlook.

Andabara | Analyst, Loop Capital Markets:

And Mark, actually Nate and Mark, like Nate to sort of, to the variance that's left in the bookings that you, that drove the, describing the wider range. What would be, I guess, like what aspects of HBCI business, maybe what end markets or aspects, you know, would be the biggest parts of the market that would sort of maybe drive some of the upside?

Mark Adams | Chief Executive Officer:

Sure.

Andabara | Analyst, Loop Capital Markets:

Yeah.

Mark Adams | Chief Executive Officer:

Yeah. What I would say, let me just try to answer that. The market opportunities that we're seeing the most near-term customer engagements are in the financial sector, the federal sector, which includes both government and federal integrators. There are some education opportunities that are interesting, but also sovereign cloud opportunities. Those are the four that I think can drive us to a successful market. That's super helpful. Now, by the way, just to fully answer, in addition to that, those markets, I think we mentioned in our script, we've had a new CRO start, Tony Fry, who came over from NetApp. And Tony's already brought on team members to target healthcare and other verticals organizationally. Mark Broughton- To to further enhance that, but in terms of 26 outlook our pipeline reflects the the sectors, I talked about being again. Mark Broughton- Financial education federal integrators and government direct, as well as sovereign cloud.

Andabara | Analyst, Loop Capital Markets:

Thanks mark.

Nate Olmstead | Chief Financial Officer:

Mark Broughton- Thanks guys. Thanks.

Victoria | Conference Moderator:

Ananda. Thank you for your question. Our next question comes from the line of Rustin Kinga with Citizens. Your line is now open.

Rustin Kinga | Analyst, Citizens:

Hey, guys. Congrats on the strong close to the year and great to hear about Penguin's pivotal role in South Korean sovereign AI plans. I just had one follow-up. Nate, it was great to hear you kind of call out that you were able to add the services revenue in such a short period of time after the initial hardware deal. And, you know, I think you guys have historically talked about hardware as a as a, you know, you lead with the hardware and then services follow on. I'm just wondering, is it too large of a leap to make to say that in this instance, you know, you were able to sort of accelerate the time to services from an initial hardware implementation? Is that something that you're seeing or is that just a one off? Thanks.

Mark Adams | Chief Executive Officer:

Well, I think it's We've got to be careful and be clear here. The overall solution, and as it was commented on in our recorded scripts, the overall solution contemplates hardware systems, software, and services. And the timing of when the revenue gets recognized is different. And so the more hardware-oriented deals we take revenue credit on, that's normally up front in any deployment. Um, the software and services bookings and revenue is, is typically ratified. So if we get a booking, that doesn't mean that we get the revenue upfront, as you know, the revenue happens over the lifetime of a, of an agreement. And so, um, in this case, um, like any case, once we, once we install, uh, or deploy a systems into a data center environment, for example, the hardware gets booked right away, relatively speaking, and we start the clock on software and services that are contracted to, and that happens over time. So this wasn't that different than other deployments. It's just that we got both agreements, you know, within a certain timeframe right after the other.

Nate Olmstead | Chief Financial Officer:

I think also it's, you know, each deal can be different than the next, but when we have large hardware deployments, the value proposition for our services tends to be higher, and so we do tend to see good services attached to those large deployments, and that was the case with SK Telecom.

Rustin Kinga | Analyst, Citizens:

Appreciate you walking through the nuances. That's great. Thanks.

Victoria | Conference Moderator:

Great. Thank you so much for your questions. Our next question comes from the line of Matt Caltry with Needham & Company. Your line is now open.

Matt Caltry | Analyst, Needham & Company:

Hey, guys. This is Matt Caltry over at Needham. Thanks for taking our questions. There's obviously no shortage of conversation around AI, and lately we've heard quite a bit of discourse around how CapEx and revenue seems to be rotating between just a few companies. And then this week we've had reports out about AMD getting involved in chip shipments with OpenAI and another report today questioning the profitability of Oracle's GPU strategy. Just curious what your thoughts are on how build outs are and will progress in this space and what you're seeing in the broader market.

Mark Adams | Chief Executive Officer:

Well, implied in our earlier comments, Matt, is that we still think we're in the relatively early innings of broad enterprise rollouts. If I separate your questions to AMD and OpenAI and that announcement, I think that just goes to show that the capital dollars out building on future large language model training environments, as well as inferencing implementations, again, it's still on the front end, the early end of the market opportunity there, buoyed by enterprise adoption of AI, which is different than the earlier stages that were primarily large hyperscalers making significant investments in their training. We're seeing and we're starting to see big pickup in terms of enterprise engagements and the pipeline growing there. Now, relative to your reference to the GPU gross margin announcement. I guess I would say when you have a lot of people selling the same thing, it tends to get commoditized pretty quickly. I'm not commenting on today's announcement only, but if you look at the gross margin of the hardware-only companies that are the large OEMs in the business, their gross margins have been significantly impacted over time. That model is not, in my opinion, is not for everybody for sure. I think it will get commoditized if you're selling the same basic underlying solution or chip in this case. So I think there are two different issues you raised. I definitely think the market is on the early stage of deployments, especially around the enterprise opportunity. And I think the announcement with AMD and OpenAI that was in the press this week, certainly another good example of the CapEx spending. Today's announcement that you're referring to on the gross margin piece is something that we see when there's large hardware-only type environments and competitors.

Matt Caltry | Analyst, Needham & Company:

That makes sense. That makes sense. Very, very helpful there. Thank you. And then as the memory market seems to be heating up here, and good commentary from you guys there and guidance there, how are you differentiating your offering there? Or to a certain extent, is it just a matter of who has availability to ship this stuff?

Mark Adams | Chief Executive Officer:

Well, and Matt, I know you're relatively new to our story from Needham, and thanks again for jumping on the call today. Our business is largely is differentiation because we buy our supply of memory silicon from the likes of SK Hynix and others. And we deliver a value add in terms of a system or subsystem level solution. And we get margin above the industry gross margin for the commodity itself being the memory chip. And so we differentiate ourselves both through design and uh firmware and software and performance reliability and so those categories are elements of our differentiation allow us to charge more than the industry charges for the memory itself um and so it's it's largely a differentiation model if we're not differentiation differentiating um on the design wins we're not going to get a lot of them understood thanks so much you got it

Victoria | Conference Moderator:

Thank you for your questions, Matt. There are no additional questions waiting at this time. I would now like to pass the conference back to Mark Adams, CEO, for closing remarks.

Mark Adams | Chief Executive Officer:

Thank you, operator. Our Q4 and full year results validate that we are on the right path, helping our value customers solve the complexity of AI infrastructure. Thank you all for joining today's call.

Victoria | Conference Moderator:

That concludes today's call. Thank you for your participation and enjoy the rest of your day.