NASDAQ:TSSI Q3 2025 Earnings Call Transcript

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Operator | Conference Call Operator:

And welcome to the TSS, Inc. Third Quarter 2024 Financial Results Conference Call. At this time, all participants are in a listen-only mode. We will open the floor for your questions and comments after the presentation. Should you wish to join the queue to ask a question at any time, you may press star 1 on your telephone keypad, and you may press star 2 should you wish to remove your line from the Q&A queue. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, James Carbonara, Investor Relations at Hayden IR. Thank you, sir. You may begin.

James Carbonara | Investor Relations, Hayden IR:

Thank you, Operator, and good afternoon, everyone. Thank you for joining us for TSS's conference call to discuss the company's third quarter 2024 financial results. Joining me today on this call are Daryl Duan, President and CEO of TSS, and Danny Chisholm, the company's CFO. As we begin the call, I would like to remind everyone to take note of the cautionary language regarding forward-looking statements contained in the press release we issued today. That same language applies to comments and statements made on today's conference call. This call will contain time-sensitive information as well as forward-looking statements, which are accurate only as of today, November 14, 2024. PSS expressly disclaims any obligation to update, amend, supplement, or otherwise review any information or forward-looking statements made on this conference call or replayed to reflect events or circumstances that may change or arise after the date indicated, except as otherwise required by applicable law. For a list of the risks and uncertainties that may affect the company's future performance, please refer to the company's periodic filings with the SEC. In addition, we will be referring to non-GAAP financial measures. A reconciliation of the differences between these measures with the most directly comparable financial measures calculated in accordance with U.S. GAAP is included in today's press release. With that, Darrell, I'll turn the call over to you.

Daryl Duan | President & CEO, TSS:

Great. Thank you, James, and good afternoon, everyone. Thank you for joining us today for our third quarter 2024 earnings conference call. I'm very excited to share that today marks my two-year anniversary with TSS. I'm very proud of our team's accomplishments to date and we look forward to continuing this journey together. You will hear today we have a lot of exciting things going on. We delivered exceptional results in the third quarter across all key financial and operational metrics, and customer satisfaction remains high. By all measures, it was a great quarter for TSS. This strong performance demonstrates that we are successfully executing our business strategy to deliver growth in revenue, earnings, and cash flow while scaling our business and operations The actions we took in 2023 to streamline our operations by investing in people, systems, and a physical layout of our main integration facility are producing excellent outcomes. We are delivering for our customers, our shareholders, while laying a foundation for accelerating growth. For the third quarter, we delivered $70.1 million in total revenue, representing year-over-year growth of 689%, a nearly 12-fold increase in net income compared to the third quarter of last year and an exponential increase in diluted EPS from just a penny in Q3 of last year to $0.10 in Q3 of this year. Importantly, the increases were driven by growth across all of our service offerings. These impressive financial results are a direct outcome of our commitment to operational excellence, strengthening relationships with our customers, and highly attractive market in which we operate. As you may recall, we made a significant investment in our production capacity in the second quarter. With these operational improvements, we have decreased our cycle time to complete racks and thereby increased our volume throughput. Computer racks that have historically taken a company two to three weeks to complete are now regularly down to turn times of less than one day. The first stage of a highly publicized integration program for AI-enabled racks came online at the beginning of June. The initial program carried well into the third quarter. Our procurement business, where we source third-party hardware, software, and services, delivered an outstanding performance in Q3. In last quarter's earning call, we shared that we expected procurement revenues in the third quarter to exceed $50 million in revenue. I am proud to report that we exceeded that target by a fair margin of with 60.5 million procurement revenues in a quarter compared to 5.4 million this quarter a year ago. For those familiar with our history, you'll recall that our procurement segment often experiences quarter-to-quarter fluctuations due to size, timing, and revenue recognition methods used for these orders. Although volumes may fluctuate quarter-to-quarter, this business line's overall trajectory remains upward, consistently and increasingly contributing to our profitability. Shifting to a quick look at our facilities management activities, primarily for our modular data center, or MDCs as we refer to it, we continue to experience moderate overall growth with the segment's revenue up 8% this quarter. This is a more predictable business line for us with healthy gross margins, typically north of 50%. I've previously highlighted a few challenges in this business, primarily from rapidly increasing compute density and evolving cooling requirements. We believe the expanding adoption of AI-enabled technology will drive incremental demand for MDCs and produce revenue in 2025 and beyond, due primarily to long lead times for the new modular data centers. Whether this materializes as predicted remains to be seen. We are strategically positioned to capitalize on this trend particularly if AI clusters are delivered as freestanding racks or modules. We believe this may be an attractive option for medium to large enterprises that want computing power. They may not have the ability to scale to justify the cost of installing new direct liquid cooling systems needed to support the next generations of expected AI rack technology. And MDC may be a cost-effective way for enterprises to enter that space. Our key customers have robust pipelines and deals are beginning to close. So our strategic inclusion in key customer programs signals optimism by us as pipelines materialize. Subsequent to quarter end, we entered into a long-term agreement with our primary customer, solidifying our position as a key partner for executing its technology roadmap by developing required integration and testing capacity to meet the demand driven by high performance infrastructure supporting generative AI. This agreement greatly mitigates operational risk for each of us, enhances our revenue visibility, and consequently greatly supports our ability to finance the needed investment in capacity and capabilities. It is a significant milestone for TSS and speaks volumes as to the status of our relationship with this important customer. The base case scenario for volumes stipulated in agreement is is similar to or greater than the peak volume of AI-enabled RAC integrations that we delivered earlier this summer. Volume expectations are dependent on sales execution by our OEM partner, but our partner has shown great confidence in TSS by committing to help to smooth what otherwise could be a feast or famine business. In the end, the negotiation of the agreement was underpinned by our mutual recognition that we are in the very early stages of the development of AI infrastructure, which we both expect to be a massive multi-year market opportunity. While the operational improvements we made in the second quarter in our facility were a great interim step, we recognize that given current market trends, the expected increasing power requirements of upcoming generations of AI rack technology, our customers' technology outlook and our goal to become the primary production partner for the AI-related technology roadmap, we need to deliver and further expand our capacity. So in concert with this new customer service agreement, plans are underway for our relocation of our factory and headquarters to a new location just a few miles from where we stand today. This is a substantial next step in positioning our business for continued rapid growth. Given our current trajectory, and accelerating demand for AI-enabled technologies, we need more space and access to increase power. We expect our volume of rack integrations to be at or above the volumes that we experienced since June 24, but importantly, the next generation of racks will consume up to six times more power than those being produced today. At the new facility, we will expand our capacity by more than 60%. from 105,000 square feet today to almost 170,000 square feet of operating space, and more importantly, we will gain access to significantly greater power to accommodate the foreseeable technology roadmap. In capacity planning, one key reason we're favored by our partners is our ability to be agile and our ability to quickly modify production lines and process to meet custom and new requirements. That trade is manifested manifested in our systems and physical layout of any building we move to. Site plans call for investment of approximately $25 to $30 million for improvements, with a significant portion of that cost allocated to bring in additional power into the building. The investment will provide greatly expanded cooling capacity for our rack testing and validation stations, tripling our capacity to test and validate direct liquid-cooled racks in addition to the more traditional air-cooled racks. As we have alluded to in recent announcements, cooling methodologies are in development for RACs with dramatically increasing power consumption, the thermodynamics of which will all but require direct liquid cooling to effectively dissipate the heat generated. Our flexibility to handle air cooling and or direct liquid cooling is a critical differentiator of our service. We have explored several buildings that are in the process of finalizing a lease agreement for our preferred property. and we are exploring bank debt financing alternatives for the leasehold improvements. Based on the structure of this multi-year agreement with our customer, we are comfortable that the revenues generated from that will be sufficient to cover the variable and fixed costs related to our RAC integration activities, including the incremental lease obligation and debt service on any debt we incur to finance the capital investments. We expect to begin operations at this new facility after the first of the year and to be fully operational and supporting our long-term customer agreement from this new location in early 25. Turning to corporate governance for just a second, we recently announced the appointment of Michael Fahey as an independent director to our board and as a member of our audit and compensation committee. Michael has a proven track record leading digital transformation and advanced new technology solutions that delivers significant revenue growth. He has been involved in IT infrastructure and supply chain businesses with customers including many of the largest technology companies in the world. Mike will be an invaluable member of the team as we continue to execute our growth strategy and further scale our business. With Mike's appointment, our board now is comprised of four directors, three of whom are independent. Concurrent with our earnings, we began trading today on the NASDAQ capital market. This is a great milestone. We pursued this up listing to improve our investors trading liquidity and to widen the pool of potential investors, including institutional investors whose investment policies may prevent them from investing in companies trading over the counter. We believe this is a huge accomplishment and a step forward, another sign of the maturing of our company. Our ticker symbol has not changed and there should be no disruption to clearing of trades already executed. Serving our customers with the highest levels of quality and integrity is the bedrock of our company. It is the basis by which we operate and is critical to our success. We were thrilled to be awarded the Professional Services Best Deployment Partner Award for 2024 by our largest customer. The award highlights our rapid adaptability and unwavering commitment to our customer service. Our dedicated service and collaborative spirit have enabled us to execute, meet, and often exceed our customers' expectations. The award is an incredible honor as is the opportunity to serve this customer each and every day. We value this relationship. We are pushing the boundaries of what's possible in AI and high-performance computing infrastructure. The market for AI infrastructure continues to advance. Customers are raising significant capital to deploy AI infrastructure. Many of the initial adopters are data center and cloud technology companies building specifically for AI. The vast majority of the market likely will be medium and larger enterprises that will build high-performance compute environments, not just for large language models and other training, but for AI application deployment. We are working with our key customer partners and directly with end-user customers to begin to understand how hyper-dense compute required for AI will be implemented in the vast majority of data center sites. We'll have more on this and report more on this in the quarters to come. So allow me now to turn the call back to Danny to discuss our numbers in a little bit more detail. Danny?

Danny Chisholm | Chief Financial Officer, TSS:

Thanks, Darrell. By all accounts, it was a great quarter for TSS. Let's jump into it. Consolidated revenues for the third quarter of this year was $70.1 million. Almost eight times the $8.9 million total revenues reported this quarter of last year. This is also a substantial increase in sequential results, up from $12.2 million in the second quarter of 2024. The increase was driven in large part by growth in our lower margin procurement services business, as well as growth in our higher margin systems integration business. Revenue this period grew in all major product lines compared to this quarter last year. Our segment reporting looks a little different this quarter than it did last quarter. Beginning in the third quarter, we're breaking out our systems integration and facilities management revenues in a bit more detail to increase the transparency and give investors a clearer picture of the drivers of our business. Particularly within the systems integration segment, we're providing a bit more detail to understand the portion of growth driven by the procurement activities versus systems integration activities And in the MD&A section of the 10-Q filed earlier this afternoon, you'll find a tabular presentation of the procurement activities in particular in a bit more detail, not only the revenues, but cost of goods, gross profits, and gross margins for each of those components of the systems integration segment. Total revenue from the systems integration segment increased from $7.1 million in the prior year quarter to $68.1 million in the current quarter. Current quarter segment revenues are comprised of $7.6 million from integration services and $60.5 million from procurement services. The integration services revenues of $7.6 million represents growth of 361% compared to $1.7 million in the year-ago quarter. The growth was driven by an increase in the AI-enabled rack integrations, which began late in the second quarter. Demand for this business is robust, And the recently signed multi-year agreement mentioned by Daryl to provide these services greatly reduces the effect of fluctuating demand or supply chain issues that are inherent in this business, allowing us to maintain the facility and staffing levels to quickly serve our customers' needs, enhancing our flexibility and ability to delight our customer. Revenue from facility management totaled $2 million compared to $1.8 million in the same quarter last year, up 8% year over year. As Darrell mentioned, this is generally a fairly predictable revenue stream with gross profit margins generally above 50%, though that was down slightly this quarter. We see the potential for more robust growth in this segment in 12 to 18 months as more medium and large enterprise clients consider using modular data centers as a cost-efficient means to harness the power of AI technology without the need to build out full data centers with all the requisite cooling capacity. Revenue from procurement services totaled $60.5 million, up more than 1,000% compared to $5.4 million in the year-ago quarter. Recognized procurement revenues and related costs, as well as the resulting gross margin percentage based on recorded values, can be heavily influenced by whether we transform the product. If we do something to transform the product, we report the gross value of the transaction along with the gross costs of those goods, called gross deals, often resulting in recognized gross margins as low as 3% to 4%. If we merely act as an agent in buying and selling the product, we record our revenue as an agency fee called net deals, resulting in 100% margin. In periods where we have an increase in the proportion of procurement activities that are gross deals versus net deals, it tends to inflate our gross revenues and costs and decrease the recognized gross margin percentage and vice versa without much impact, if any, on the gross profit dollars recorded. This in turn can also have an impact on the company's blended gross margin percentages based on recorded values as the procurement business has much lower margins than the remainder of our business. Increases in the recorded amount of gross procurement activities will have a downward effect on the company's overall margin percentages reported. In the third quarter of 2024, the majority of procurement activities were gross deals, and in the comparable prior year quarter, the majority were net deals. As a result, the procurement gross margin percentage based on recorded U.S. GAAP values was 6.1% in the current quarter versus 30.4% in the prior year quarter while the gross profit dollars increased 125% from $1.7 million to $3.7 million. In analyzing what I consider the true economics of our procurement activities, while it's non-GAAP, I find it most useful for me to look at the gross revenues and gross costs of procurement activities, regardless of whether they were recorded as gross or net deals. On that basis, our gross revenues were up 94% from $41 million in the prior year quarter to $79.6 million in the quarter ended September 30, 2024. Gross profits increased from $1.7 million to $3.7 million, just like the gap figures, and the resulting gross margin percentages based on these gross values improved from 4% in the prior year quarter to 4.7% in the current quarter. On the same basis, year-to-date gross procurement revenues increased 33% from $90.5 million in the prior year-to-date period to $120.6 million in the current year-to-date period, with gross margins on that basis improving from 3.9% to 4.4%. As we continue to scale and grow, the mix of our revenues will likely drive quarter-to-quarter fluctuations in our gross margins. The overall gross margin for the entire company was 11.3% this quarter compared to 31.9% in Q3 of 2023. This decrease is primarily due to the dramatic increase in revenues from our lower margin procurement services business combined with a greater portion of those sales being recorded as gross deals. This business line, while lower in margin, serves as a conduit to providing some higher value add, higher margin integration services. And it contributes nicely to the bottom line all by itself. Individual customer engagements in this business may be much larger than our typical integration or facilities management engagements. While procurement revenues may remain at elevated levels for the next three to six months in comparison to historical trend, we don't currently expect them to be at quite the same level that we saw this quarter. As much of our procurement activity is ultimately related to federal government buying, we believe this can contribute to some seasonality in these revenues. As the federal government budget ends on September 30th each year, we believe this may generally lead to an increase in procurement revenues in the quarter ending September 30, and again in the quarter ending December 31st each year as federal agencies receive their budgets for the new fiscal year. Because revenues can be heavily impacted by gross versus net procurement deals even without any difference in economic reality, I prefer to view our consolidated costs as a percentage of gross profit rather than percentage of revenues, which is generally the same regardless of, the gross profits are generally the same regardless of how procurement activity is recorded and therefore more comparable between periods. SG&A expenses improved as a percentage of gross profit to 49% in the third quarter of 2024, down from 72% in the year-ago quarter. On a dollar basis, SG&A expenses increased to $3.9 million in the third quarter of 2024, up from $2 million in the year-ago quarter. Our SG&A costs have increased as we've invested in people, capacity, and processes. The current quarter SG&A expenses also include some larger than normal accruals for commissions and other incentive compensation driven by the outsized operating results. Through the use of well-designed incentive compensation plans, we believe we can reward and encourage outstanding performance by our staff, like we saw this quarter, while automatically scaling back costs in periods with results that may not be as robust. Operating profit margin in the third quarter of 2024 was $3.8 million and 48% of gross profit, respectively, compared to $0.7 million and 25% in Q3 of 2023. Calculated as a percentage of recorded total revenue rather than gross profits, our operating income margin was 5.4% in the current quarter compared to 8.1% in the prior year quarter. This was largely driven by the large increase in gross procurement deals discussed earlier. During the quarter, we had net interest expense of $1.1 million. This was comprised of $1.3 million of interest expense tied to factoring receivables from our largest customer, mostly related to procurement activity, partially offset by $0.2 million of interest income earned from cash on hand. This compares to net interest expense of $0.5 million in Q3 2023, comprised of $661,000 of interest expense, partially offset by $179,000 of interest income on bank deposits. Combining the impact of all these items, net income for the third quarter of 2024 was $2.6 million, more than 11 times the $209,000 net income in Q3 of 2023. Earnings per diluted share was 10 cents for the third quarter of 2024, up from just a penny in the third quarter of last year. Adjusted EBITDA, which excludes interest, taxes, depreciation, amortization, and stock-based compensation, was $4.3 million, up from $0.9 million in the year-ago quarter. Turning to the year-to-date results for a second. For the nine months ended September 30, 2024, Total revenues were up 227% to $98.1 million compared to $30 million in the year-ago period. Gross profit for the first nine months of 2024 increased 96% to $15.1 million, and our SG&A costs improved to 59% of gross profit, down from 84% year-to-date 2023. Year-to-date, our net income was $4.1 million compared to a net loss of $262,000 in the 2023 year-to-date period. And diluted EPS improved from a one-cent loss to 16 cents in the current period. Turning to our balance sheet. As of September 30, 2024, we had cash and cash equivalents and short-term deposits totaling $46.4 million. and again, ended the period debt-free. The cash balance is somewhat inflated as we get paid almost immediately for billings to our largest customer through a financing program they have in place, whereas we typically get 30 to 45 day terms to pay our vendors. In periods such as the current quarter, when procurement activities are unusually large, we carry a larger than normal cash balance. We estimate that after removing the float we enjoy by receiving payments on factored receivables, prior to needing to pay our vendors, the remaining unrestricted cash balance available to fund daily operations or invest for growth is currently about $10.6 million. For the first nine months of 2024, we generated cash flow from operations of $36.9 million, including the timing benefit from procurement activities, compared to $8.6 million in the first nine months of 2023. Networking capital, which nets out temporary fluctuations due to timing of payments to vendors and receipts from customers, increased from $893,000 at the beginning of this year to $4.3 million at the end of September 2024. As Darrell mentioned, while we have not yet finalized the lease agreement, and there's always risk until it's completed, We've had very productive discussions with our bank to finance the majority of the $25 to $30 million we plan to invest in our new facility with an eye to aligning debt service payments with revenues from our AI rack building activities. Although other banks have expressed strong interest in financing this need, we believe we'll be successful in putting in place a facility with our existing bank with repayment terms that include a fully amortizing term loan. All in all, it was another great quarter financially. While we're not providing specific financial guidance at this time, based on our current visibility, we expect profitability in the fourth quarter to be slightly below the third quarter level due to the timing of incoming projects and a smaller pipeline of procurement deals in Q4 compared to Q3. The additional contribution from procurement deals is nice when they spike, but with limited overhead, direct labor, or square footage dedicated to these activities, We don't need to cover significant costs in periods with lighter procurement activities. We expect the first half of 2025 to be in line with our second and third quarters of 2024 in aggregate. With that, I'll turn the call back over to Darrell to share some insights into our expectations for the future and provide some closing remarks and Q&A.

Daryl Duan | President & CEO, TSS:

Great. Thanks, Danny. Folks, to recap, I'm very proud of our TSS team's ability to execute our operational commitments and our vision and the high level of collaboration, planning, and teamwork that we have with our key customer. Our detailed focus on the customer and those relationships is critical to our continued success. This allows us to continue to innovate and execute in ways that have laid the foundation for long-term success for TSS, our customers, and our investors. So, Tom, if it's okay with you, I'll turn it back and we can handle Q&A.

Operator | Conference Call Operator:

Certainly. Ladies and gentlemen, the floor is now open for questions. If you wish to join the queue to ask a question at this time, please press star 1 on your telephone keypad. You will hear a brief tone to indicate you have successfully joined the queue. Should you wish to remove yourself from queue, you may press star 2. Once again, if you wish to join the queue at this time to ask a question, please press star 1 on your telephone keypad at this time. And we do ask if listening on speakerphone today that you pick up your handset while asking your question to provide optimal sound quality. Please hold a moment while we poll for questions. Thank you. And your first question today is coming from Gurdip Janjua from Murchison. Gurdip, your line is live. Please go ahead.

Gurdip Janjua | Analyst, Murchison:

Hey, guys. Thanks for taking the question, and congratulations on the uplist to NASDAQ. That's huge. Certainly opens you up to several new term catalysts as well. So your business has obviously seen tremendous growth in the last little bit here. And it looks like this growth is expected to continue for the foreseeable future with this multi-year agreement. I think there's been some talk on Twitter about you guys actually building the XAI supercomputer for Elon Musk. So when I look at the financial position of the company today and the very strong stance that the company has taken against any dilutive equity financing, it really increases my confidence in management's ability to drive home that long-term shareholder value. Now, my question is around future growth. So you seem like you're the hottest play in AI right now. And on top of that, we saw today that SMCI, your biggest competitor, is facing serious concerns around a potential delisting risk. So there's a very high probability that you'll be taking on a So that's a company that was trading out 30 times EV EBITDA back in June before all their internal control issues were brought to light. So how do you plan to execute on the potential upside scenario here and maybe mirror that valuation multiple?

Daryl Duan | President & CEO, TSS:

For Deep, a lot of questions baked in there and some assumptions. So let me see if I can answer overall. Thank you for your question and appreciate your comments. As you know, we can't comment on the customers and some things that you brought up, but we're very proud of what we're doing. On the growth trajectory, one of the reasons why we're moving is to accommodate growth, and we expect that there's going to be some spikes. We anticipate the spikes. We're prepared for those spikes, and we're also prepared for what we think is a more robust line of business, like we stated just a few minutes ago, that we started to see in the middle of the year with a large project. We're excited about that. We think it's going to continue. We're prepared for that. And all I'm saying is bring it on. We'll take as much as you can give us, and we'll go from there.

Danny Chisholm | Chief Financial Officer, TSS:

The other I would share on that, Gardeep, is as we moved our new facility, part of what we're looking at is not only what the current needs of our customer are, but really can we build out to take on two or three times that kind of volume if that exists. At least when we do our channel checks, it looks like there's a pretty significant amount of volume of the AI rack building coming. And so we're preparing ourselves to be ready to take on not just the same kind of volume that we've done the last four months, but really up to two, three, four times that amount.

Gurdip Janjua | Analyst, Murchison:

Hey, Pradeep, to answer your question? Yes, it did. I do have a follow-up here if you'll entertain it. I know Dell prefers to outsource a lot of this work to you guys, but it seems like you'd be a great sort of in-house or buyout target for them at a price that is at least, I would say, anywhere two to three times more than where you're currently trading at. So the question is, is that something that you would entertain? I'm just curious to hear your thoughts around that.

Daryl Duan | President & CEO, TSS:

Pradeep, look, I mean, we have an obligation to a lot of constituents and many on this call today. And we will entertain anything that's good for the business, the future growth, our shareholders, our investors, our employees. So really nothing's off the table. But I can promise you that we are singularly focused on just execution and let everything else happen as it may.

Gurdip Janjua | Analyst, Murchison:

Awesome. Thank you very much. All right. Thank you.

Operator | Conference Call Operator:

Thank you. As a reminder, ladies and gentlemen, if you wish to join the queue at this time, you may press star 1 on your telephone keypad. Once again, that will be star 1 if you wish to join the queue to ask a question. Your next question is coming from Chris Tuttle from Blue Caterpillar. Chris, your line is live. Please go ahead.

Chris Tuttle | Analyst, Blue Caterpillar:

Hi, thank you. Nice to see you guys are keeping busy. My question is, and I think it'd be generally interesting to people, the facilities management business, right? How attractive do you think that is qualitatively long-term? Is this a business that could look could be as good as the integration business in a few years. I'd just love to get your perspective on how we should be thinking about that business over the longer term.

Daryl Duan | President & CEO, TSS:

Hey, Chris. Thanks for the question. If you research the market and the growth trajectory and the compounded average growth rates, IDC has some interesting stats in that space of around 12% to 13% CAGR growth. That's exciting because there's a lot of money involved. I can tell you that we think there is an opportunity for MDC growth around AI. One of the long pole in the tents is getting the container. Lead time in a container, especially now as you think about what the design point needs to be for the container to accommodate direct liquid, is a little longer than we want and I think that the market wants. So it's got to come down. It's got to shrink. And the players in that space know that. I think we're going to see some activity. I don't know if it could reach the volumes of what we're talking about in RAC integration, because those volumes are significantly expanding. But I do think in the near term, I'm optimistic that we should be able to talk more about what we see happening that is around the bookings level by the end of the year that will produce revenue in 25 and 26. So I would say just let's see how this plays out. And I'm optimistic that we'll see something positive. Okay, great. Thanks a lot, guys.

Gurdip Janjua | Analyst, Murchison:

Thanks, Chris.

Operator | Conference Call Operator:

Thank you. Your next question is coming from Ian Carr. Ian, your line is live.

Ian Carr | Analyst:

Please go ahead. Hey guys, thanks for taking a chance to answer this question and congrats again on the great quarter. So I just have a question about your new facility. I know you mentioned it's able to handle a lot more volume, but do you think you guys chose a facility that is large enough? And if you do keep growing at the rate you are growing and hope to grow at, is this facility going to be able to handle that? And in the current industrial park of where this facility is, are you going to be able to get a bigger facility if needed? And what does that timeline look like?

Daryl Duan | President & CEO, TSS:

Ian, you sound like you've got some inside information here. No, just a follower of the company, that's all. All right. Yes, for the time being, we think it's sufficient. Todd Merritt, you know, runs our operations, and Todd's got a variety of scenarios that allow us to plan out the growth, a lot of it on the RAC integration side, primarily based on test times, the percentage of direct liquid versus air, the power needed, et cetera. I think we've got a variety of different options in front of us that this facility will handle for a while. Incidentally, where the facility is, there's additional space stone throw away that is available should we need it. And we also have a facility we're in, which is another 100,000 square feet, that we have the option to sublet or to utilize as a buffer. So I think we're good. And by the way, what we spent time working on is moving inventory to get more production capacity space in our existing facility, working with our customer on that. And that's actually been a pretty good move. So we're not wasting space storing stuff. So I'm optimistic, I think Danny is, and I know Todd is, that we've got a plan. And if we're in a fortunate position where we blow through this plan, we know the market. We spend a lot of time surveying the market. We know where the players are for additional space. So I think we're good.

Danny Chisholm | Chief Financial Officer, TSS:

The other one I'd add on to that is really the primary driver of the move wasn't even square footage. We could have handled a good bit more volume where we are based on square footage. It was really power requirements. So it was going to take us probably 18 to 24 months to get the power that we would need in the existing facility to do the kind of volume and the higher-powered racks that we see coming. We've got roughly 2.5 megawatts coming into this building, a little bit more than that. And we will have upwards of 12 megawatts pretty quickly in 2025 and looking out at 20 or more megawatts within a year after that. So really, that was more the gating item than the square footage. So that opens up a tremendous amount of opportunity with getting that.

Ian Carr | Analyst:

Awesome. Well, thank you guys. Appreciate it. Good luck for the rest of the year.

Daryl Duan | President & CEO, TSS:

Ian, thanks, buddy. Appreciate your question.

Operator | Conference Call Operator:

Thank you. And as another reminder, should you wish to ask a question at this time, you may press star 1 on your telephone keypad to join the queue. Once again, checking if... There should be any final questions, and you may press star one on your keypad to join the queue. And we have a question from Max Borges. Max, your line is live.

Gurdip Janjua | Analyst, Murchison:

Please go ahead. Hey, Max. Max Borges, your line is live. You may proceed with your question.

Max Borges | Analyst:

Sorry, I had it on mute. How are you doing, guys? Thanks for letting me ask a question. When you guys look at your future growth potential over these next few years, what do you think is the biggest potential bottleneck to that growth? Is it facilities? Is it people? Is it power?

Danny Chisholm | Chief Financial Officer, TSS:

Power. Power and probably availability of NVIDIA chips to our customers.

Max Borges | Analyst:

And what kind of impact do you think that will have as far as, you know, topping out how quickly you can grow? Like, is that the determining factor of how quickly you'll be able to grow is how quick you get those chips or the power, whichever one is your answer?

Daryl Duan | President & CEO, TSS:

You know, I think, Max, like I mentioned earlier, we do a lot of scenario planning. What if And we have a very close working relationship with our customers. And we're constantly talking about technology and how do we adapt to the future technology. I mean, a kilowatt, I'm sorry, a rack today might be 88 kilowatts. And I thought we were looking at mid, early 200s, and it's now approaching 300. And it's going to get even more powerful. So the good news is, as I mentioned Todd earlier, we're out in front of what that demand is going to be for power. So I say power because everybody's chasing power, and it's going to be something we're going to have to deal with too, but we're out in front of it. And I think we're okay. I mean, I'm not saying we're fat, dumb, and happy sitting back, laying back, and it's all good. It's a crazy world we live in. It's very frenetic, and we just have to be out in front of it. So I think we're okay for the time being based on our planning for anything in the next couple of years at least.

Danny Chisholm | Chief Financial Officer, TSS:

Yeah, and what we're moving, the city has been really cooperative in working with us on that. I believe they're, in fact, building a new substation near where we are. So I think that expands some possibilities for future expansion still.

Daryl Duan | President & CEO, TSS:

You can't see it, but I'm smiling here because we're in Texas. And usually around here, when a guy or a woman or somebody says to you that you got a deal, it's good, it's good. So we've got a really good relationship with the city, where we're going, and where we're at, actually. And I think we're okay. You know, as Danny said, Danny and Todd have been working really hard on this, as well as the people representing us with this site. And, you know, look, man, there's no guarantee anywhere in this world, but I think we're in a good spot.

Max Borges | Analyst:

Okay, great. Thanks, guys. Appreciate the answer.

Gurdip Janjua | Analyst, Murchison:

Yep. Thanks, Max. Thank you. And we have a question from Charles Hutchinson.

Operator | Conference Call Operator:

Charles, your line is live. Please go ahead. Hi, guys.

Charles Hutchinson | Analyst:

I was wondering if you guys were operating near your full capacity when you guys were working on the June project. Short answer is no. Okay. That's it.

Daryl Duan | President & CEO, TSS:

Charles, you don't have anything better than that. Come on, man, give me a better question.

Charles Hutchinson | Analyst:

Yeah, I mean, I guess I would be curious how much of your capacity were you guys utilizing, and I guess what is the timeline on kind of utilizing that full capacity if you have one?

Daryl Duan | President & CEO, TSS:

I wish I didn't say anything. We were good at no. The timeline, a lot of it depends on a demand signal, but We're good. I think, you know, I mentioned once before that we have the capacity to grow 10X. And I'm comfortable that we have that capacity. So timeline, a couple years maybe before we start to get a little tight, but I think we're good for the time being. Great. Thank you, guys. Now, but I'll also say this. I mean, somebody, it was Pradeep brought up the Supermicro I don't want to ever speak badly of anybody. I don't wish any ill will on anyone in our industry. If there's a demand increase because of something related to that, we will adapt and adjust to it. And that would be a spike that we're not planning for, but we can prepare and adjust to. So, like I said earlier, bring it on. We'll take it on.

Gurdip Janjua | Analyst, Murchison:

Great. Thank you, guys. You bet.

Operator | Conference Call Operator:

Thank you. This does conclude today's Q&A session. I would now like to turn the floor back to Daryl Dewan for closing remarks.

Daryl Duan | President & CEO, TSS:

Thank you, Tom, and thank you, everybody, for listening to the call and, Danny, for your support here. As I've said in previous calls, we remain focused on execution, and we're excited to be an integration services leader at the intersection of advanced computing and AI. We could not have accomplished this alone. We have a lot of people helping us, We thank each of them and you, our investors, for believing in our company. We remain optimistic about our future and our growth opportunities. So thank you. I appreciate your participation today.

Operator | Conference Call Operator:

Thank you. This does conclude today's conference call. You may disconnect your lines at this time and have a wonderful day. Thank you once again for your participation.