NASDAQ:TSSI Q3 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Good afternoon. At this time, I would like to welcome everyone to the TSS third quarter 2026 earnings call. Please note that today's call is being recorded. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. I will now turn the call over to James Carbonara with Hayden Iyar. Please go ahead, sir.

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 2026 financial results. Joining me on the call today are the company's president and CEO, Darryl Dewan, and its CFO, Danny Chism. 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 5, 2026. TSS expressly disclaims any obligation to update, amend, supplement, or otherwise review any information or forward-looking statements made on this conference call or the replay 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 and the most directly comparable financial measures calculated in accordance with U.S. GAAP is included in today's press release. With that, Darryll, I will turn the call over to you.

Darryl Dewan | President and Chief Executive Officer:

Thank you, James. I'm very excited to report that during the third quarter, we executed our core strategy to capitalize on accelerating demand for AI and high-performance computing infrastructure. We invested in our systems integration business while expanding our capabilities and positioning TSS for further growth. I'll touch on what we're seeing in terms of market development and our strategic positioning. We delivered a strong quarter with total revenue increasing 20% year over year to $50 million and record systems integration revenue growing 75% to $16.1 million. Importantly, growth in this higher margin business contributed to a significant improvement in overall profitability with adjusted EBITDA increasing 225% to 4.7 million. These results demonstrate the progress we are making in executing our strategy and expanding our role in increasingly complex AI infrastructure deployments. While procurement continues to experience variability and customer order timing, revenue rebounded as we guided in our previous earnings call to within our historical range during the quarter. We remain focused on building on the increasing momentum and systems integration, improving our procurement sales and operations, and developing our facilities management growth and revenue streams. We are investing in our production capacity and technical readiness needed to serve customers' evolving requirements. Beyond expanding our production capacity and our existing AI integration site in preparation for next-generation AI platforms, we recently announced the Georgetown, Texas inventory warehousing expansion. We believe these investments, together with discipline execution, positioned TSS to pursue additional revenue opportunities and support profitable growth in 2027 and beyond. An important development this quarter was our announcement of a seven-year lease for approximately 380,000 square feet of additional warehouse space at the Berry Creek Business Park in Georgetown, Texas,

less than a mile from our existing integration facility. In parallel with this agreement, We signed a seven-year agreement with our largest customer to use this dedicated facility to provide warehousing services. This is a strategic investment in our ability to support growing customer volumes and increasingly complex supply chain requirements associated with AI and high-performance computing infrastructure. As these systems become more powerful and sophisticated, customers need more than integration capacity. They also need the ability to receive, Thank you very much. The additional space dedicated to further supporting our primary customer will provide greater flexibility to manage inventory, coordinate material flows, and support multiple customer programs simultaneously. Its proximity to our integration facility is a very important operational advantage. The expansion will come online in phases. In October, we took possession of one building covering roughly 126,000 square feet and started using it to store customer material while the landlord completes the tenant improvements in the larger building. We expect to fully utilize both buildings once the tenant improvements are completed in 2027. The broader demand environment for AI and high performance computing infrastructure continues to shape our opportunity set and we're focused on positioning TSS to participate in this market. The landscape continues to evolve. Companies continue to seek to expand as rapidly as possible to meet the shortage of compute, memory, and data center capacity available. Neo cloud providers, hyperscalers, and other technology companies continue to invest in computing capacity to support increasingly demanding AI workloads. For TSS, the opportunity extends beyond higher volumes of equipment. These deployments are becoming more complex with greater integration requirements and more demanding power, cooling, and networking and logistics needs. I will touch on this more in a moment, but we also see the trend moving to prefabricated factory integration modular solutions to accelerate time to market and reduce deployment costs. We believe these trends reinforce the value of our integration, procurement, and facilities management capabilities. Customer need partners that can coordinate equipment sourcing, repair systems for deployment, and provide ongoing support as their infrastructure expands. We recognize that customer spending and project timing can vary, and individual deployments may shift based on equipment availability and customer priorities. Nevertheless, we believe the long-term need for AI and high-performance computing infrastructure provides an attractive opportunity for TSS. Our priority is to convert that demand into profitable growth while ensuring our investments remain aligned with customer requirements. Systems integration continues to be a key driver of our growth as we focus on meeting increasing customer demand. During the third quarter, systems integration revenue reached a record $16.1 million, up 75% year-over-year and 16% sequentially. This performance reflects growing demand for our integration services in support of AI and high performance computing infrastructure deployments. Importantly, we are seeing continued higher volumes across both complex direct liquid cooled technology AI racks and mainstream air cooled and networking racks reflecting demand across multiple areas of our systems integration business. Based on current activity, and our visibility into customer programs, we expect these volume trends to continue to grow in Q4 and into 2027. During the third quarter, we processed 248% more racks compared to the prior year period and 57% more than we integrated just the last quarter. Based on what we have seen to date and what's in the pipeline, We currently expect further acceleration in our sequential quarterly growth in the fourth quarter and into 2027. The incremental contribution from the new Berry Creek warehouse should supplement rack volume-led growth. We're also focused on increasing throughput, improving operational efficiency, and maintaining quality as systems complexities grow. Our objective is to scale our integration capabilities while continuing to meet customer expectations for execution, reliability, and delivery. An important part of this effort is preparing for the next generation platforms, including NVIDIA's Vera Rubin architecture. Through the end of the third quarter, we invested just over $13 million of the expected $17 million in infrastructure readiness to address the additional power, cooling, and other technical requirements associated with these systems with the remainder of that upgrade to be completed shortly after quarter end. We anticipate amending our agreement with our customer to take this investment into consideration with returns from this investment beginning in the fourth quarter. This is an important step in aligning our mid-structure investments with the requirements of these increasingly complex systems and the business opportunities they support. Looking ahead, We believe systems integration is well positioned to remain an important growth driver for TSS. Our priorities are to convert customer demand into sustainable revenue growth, expand our technical and operating capabilities, and maintain disciplined execution as we prepare for the next phase of AI infrastructure deployment. Our procurement business continues to play an

important role in meeting customers' infrastructure requirements by sourcing the components and equipment needed for their deployments. At $32.4 million and representing a 4% growth year over year, our third quarter procurement revenue returned to its historic order range of $20 to $40 million. As we have discussed in the past, procurement revenue can vary from quarter to quarter based on customer order timing, project schedules, component availability, and inventory requirements. While this variability can result in meaningful quarterly fluctuations, we remain focused on improving execution and operational efficiency. We continue to work closely with customers and suppliers to coordinate equipment sourcing and deliveries. Our focus remains on expanding opportunities, reliable execution, responsive customer service, and disciplined inventory and working capital management. Looking ahead, procurement complements our integration capabilities and helps us support customers across more stages of the infrastructure deployment process. We recently enhanced a team that focuses on selling and expanded our reach to ensure this remains an important part of our business. Facilities management is our modular data center business where we integrate IT technologies along with power and cooling solutions into specialized containers and deploy to the edge environment and provide ongoing sustaining services for the environment. During the third quarter, facilities management revenue is approximately 1.1 million, down 30% year over year. While revenues business can vary based on customer activity and service timing, We continue to see opportunities to support customers as their installed infrastructure expands and their ongoing maintenance and operational needs evolve. The current quarter represents primarily revenues from preventative maintenance agreements, whereas we periodically see spikes in revenue from discrete projects such as refurbishments, battery replacements, or similar project work. We expect an increase in the fourth quarter's results as we deploy a new customer MDC, and are scheduled to deliver other larger, more complex MDCs in 2027. Historically, the modular business serves two distinct markets, hyperscalers, where containers were delivered to augment data center capacity, and the enterprise, where single standalone containers serve specific purposes. In recent years, the modular market was quiet as the focus of capital spending had turned to massive AI sites. AI data center design has grown increasingly complex for several reasons. First, interact cabling is far more complex in AI data centers. As for training model purposes, each server must be able to retrieve data from any other server. Second, power distribution is at far larger capacities within the data center, not just to it. and third, cooling methodologies have been stressed due to both the heat generated by significantly more dense racks and due to the combination of air cooling and liquid cooling. Data center design is progressing to considering modular solutions where racks can be quote unquote bundled together along with network, power and cooling in a factory. Modules can potentially be deployed far more rapidly than individual racks. Finally, the turnover of IT equipment over time is likely to be more efficient of modular solutions where entire modules can be refreshed with new IT. Product announcements from large chip producers and hyperscalers indicate modular solutions are gaining traction. We're in these discussions and we will report further as discussions progress. Further, the need to source power for AI data centers has been well documented. Numerous strategies have emerged to place data center capacity near energy sources where energy can be made available at advantageous costs. But for other reasons, locations do not suit a hyperscaler site. Modular solutions are attractive. In recent months, we have seen an influx of concepts along these lines. Our FM business generates revenue from deployment and from ongoing maintenance. We will be seeking to extend our services in order to maximize opportunities. While modular is a relatively small part of our overall revenues today, it has the potential to grow to be a much larger contributor in coming quarters. Across the business, we remain focused on converting customer demand into profitable growth through strong execution, continued development of our commercial capabilities, and disciplined investment. Our Vera Rubin Readiness initiatives and Georgetown Warehouse expansion address complementary needs. The infrastructure investments prepare us to support more demanding next-generation computing systems, while the additional warehouse capacity improves our ability to manage equipment and materials that flow through the operations. Beyond facilities and equipment, successful execution requires appropriate staffing, technical training, testing capabilities, and operating processes. We continue to hire the best talent. We have a dedicated team to help rapid sourcing of talent to meet our growth goals. We are ensuring our teams are prepared to meet evolving customer requirements while maintaining the quality and the reliability our customers expect. At the same time, we are taking a measured approach to investment. We want to ensure that TSS has the capabilities and capacity needed to capture growth opportunities without getting too far

ahead of the customer demand. We will continue to evaluate the timing of expenders and the pace at which new capacity becomes productive with a focus on financial discipline and returns over time. We believe these investments can strengthen our operating platform, support larger customer programs, and create opportunities for incremental revenue and earnings in 2027 and beyond. So looking ahead, we are encouraged by the momentum in our systems integration business and the visibility we have into our customers' robust pipeline. Based on these factors, we anticipate further growth in the fourth quarter, and as a result, we are raising our full year 2026 adjusted EBITDA outlook to a range of $21 million to $23 million. We expect systems integration revenue to increase beyond the level achieved in the third quarter, supported by continued higher volumes across both AI and mainstream racks, as well as some incremental contribution from our warehousing services. Furthermore, we expect this growth to continue in 2027. This updated outlook reflects our confidence in the progress we've made, particularly in systems integration, and our continued focus on improving our business mix and operating performance. Thank you to our employees for the continued efforts and to our customers and partners for their confidence in TSS. We look forward to updating you on our progress. So now let me turn the call over to Danny, who will discuss our financial results in more detail.

Danny Chism | Chief Financial Officer:

Danny? Thanks, Darryl. Good afternoon, everyone. Let's get into the results. Total revenue for the third quarter increased 20% to $50.1 million, an increase of $8.2 million from the prior year quarter. The year-over-year growth was primarily driven by strong performance in systems integration, which benefited from increased customer demand and higher activity levels, as well as an additional contribution from our warehousing activities, which began in May. Procurement revenue also increased modestly year-over-year, while facilities management revenue declined. Overall, the results reflect continued momentum in our higher-margin systems integration business and the positive impact of our ongoing efforts to improve our revenue mix and profitability. Taking a closer look at each segment, revenue from our procurement services segment was $32.4 million, an increase of 4% compared with the prior year quarter. This represents a return to our more typical $20 to $40 million quarterly range, as we indicated we expected in our last quarterly call. With little required infrastructure or headcount supporting this business, we enjoy the upside when higher volumes materialize, but lower volume quarters do not necessarily represent a large risk as the fixed cost structure is relatively small. Revenue from our systems integration segment was $16.1 million, up 75% from $9.2 million in the prior year quarter. This also represents a breakout from the $14 million range we've seen in the last few quarters, up 16% from the second quarter of this year. Notably, the increase reflects strong growth in both our AI business and our mainstream RAC business. Systems integration continues to be a key driver of growth for TSS and represents a structurally higher margin business compared with the procurement services. We expect further growth in this segment in the fourth quarter and into 2027. As Darryl discussed, we're expanding our warehouse capacity in Georgetown to support growing customer volumes and the continued growth of our integration and inventory management services. On our income statement, you see operating lease income and cost of lease operations, each of approximately $400,000, representing only the revenue and costs related to the facility itself. Also included in the systems integration revenues is approximately $800,000, related to the quarter's warehousing services other than the lease component. As we bring the additional space online, we believe it will not only provide incremental revenue and gross profit from the warehousing activities themselves, but also position us to support higher volumes and pursue incremental revenue opportunities in 2027 and beyond. As we outsource the daily management of the warehouses to a 3PL provider specializing in such services, We expect the margins on the warehousing service to be a bit lower than the remainder of our systems integration business. Although additive to earnings, this will slightly decrease the overall systems integration margin we anticipate reporting in future periods. During the third quarter, systems integration represented 32% of total revenues compared with 22% in the prior year period. As this business scales and we leverage its relatively fixed cost base, We expect it to continue increasing its importance as a contributor to gross profit and to overall profitability. Through the end of September, we've invested about $14 million of the $17 to $18 million total that we previously indicated

would be needed to prepare our infrastructure for the next generation platforms, including Vera Rubin, consisting primarily of power and cooling upgrades. We placed a large portion of those upgrades into service in the third quarter, and as a result recognized incremental depreciation of roughly $155,000 in the quarter related to these additions. We anticipate amending our multi-year RAC integration agreement in the fourth quarter following completion of this investment, after which we expect our revenues to increase in relation to the use of those assets. We expect to fully recover this incremental investment over the remainder of our multi-year AI RAC integration agreement. We continue to see robust demand for both mainstream and AI rack integration and expect further expansion of that revenue stream in Q4. Revenue from our facilities management segment was $1.1 million, down a bit less than a half million dollars from this quarter last year. Maintenance revenues were $753,000 compared with $1 million in the prior year quarter, with several older modular data centers decommissioned over the past year. Discrete project revenues were $366,000 in the current quarter compared to $577,000 in Q3 of 2025. In the fourth quarter of this year, we expect a lift in discrete project work as we deploy a new MDC. We're beginning to see greater interest in this business line as another larger MDC is expected to be deployed during 2027. Following deployment, new MDCs typically generate multi-year preventative maintenance agreements. Consolidated gross profit was $8.6 million for the third quarter of 2026, an increase of 86% year over year. Our blended gross margin was 17.2% compared with 11.1% in the prior year quarter. Even with the growth in our lower margin procurement business, the much greater growth in our and the entire margin systems integration business more than outweighed its impact, pushing up the blended margin 610 basis points. But more meaningful than the blended margin is the margin by business segment. Procurement services gross margin was 7% compared to 8.3% in a prior year quarter. When viewed using the non-GAAP gross value of all transactions which we believe provides a more comparable view of procurement economics, Gross margin was 5.0% compared with 5.3% in the prior year period. Facilities management gross margin was 47.4% compared with 55.4% this quarter last year. We've previously noted that margins in this business are typically around 50%, although they can vary based on project mix and contract specific costs. Facilities management gross profit was $530,000 compared with $881,000 in the prior year quarter. Systems integration gross margin was 35.4% compared with 12.9% in the prior year quarter. In the prior year period, we incurred additional power and depreciation costs related to investments in our systems integration infrastructure before those investments began contributing to incremental revenue under our amended AI RAC integration agreement, which was signed in December of 2025. In the current quarter, we benefited from the revenue contribution of those investments, higher rack volumes, and the addition of warehousing and logistics services that began in May 2026. As mentioned a moment ago, we expect the expansion of our warehousing services in Q4 to provide incremental gross profit dollars, but slightly decrease the overall margin in this business as the warehousing services bear a lower margin than our other systems integration work. Selling, general, and administrative expenses were $6.1 million compared with $5.2 million in the prior year period. The change was primarily driven by higher non-cash equity-based compensation, headcount and related compensation costs to support the growing scale of the organization. Included this quarter was a cumulative catch-up cost of about $150,000 for a performance stock grant made in January, but which we first deemed probable investing in the current quarter. While the dollar amount of SG&A expenses grew with the scaling in the organization, these costs improved as a percentage of gross profit from 113% in the prior year quarter to 71% in the current quarter, reflecting the growth in gross profit far outpacing the ramping of SG&A spend. We continue to take a disciplined approach to managing our cost structure while investing in the resources necessary to support long-term growth. The $285,000 loss on sale or disposal of assets was more than offset by a slightly larger amount included in our systems integration revenues, representing a customer's reimbursement of these costs. Operating income improved by $2.9 million year-over-year, swinging from a $1.8 million loss in the prior year period to almost $1.2 million of operating income this quarter. This improvement reflects the improved revenue and gross profit stemming from both the December 2025 renegotiation of our AI RAC integration agreement, as well as recent increases in the business activity. Looking ahead, we expect revenue to continue growing faster than SG&A and operating costs, which we believe should further support improvement in operating income and margins throughout the remainder of the year. Interest expense was $310,000 compared with $121,000 in the prior year period and $322,000 last quarter. Most of the interest incurred this quarter last year was capitalized as a portion of the build-out of our new facility that was

completed mid-quarter with the recorded interest expense representing only the interest incurred after that point. Interest income was $633,000 compared to $434,000 in the prior year quarter, primarily reflecting a higher average cash balance following the addition of proceeds from the equity offering we completed in August of 2025. Income tax expense was $338,000 compared with $50,000 in the prior year quarter. Our effective tax rate for the quarter was 22.7% compared with 3.5% in the prior year period. Historically, we maintained a full valuation allowance against our deferred tax assets. However, following our improved financial performance and our expectation of continued taxable income, we released most of the valuation allowance in December of 2025. As a result, we now generally recognize income tax expense at applicable federal and state rates subject to adjustments for items such as tax benefits related to employee stock compensation. Looking ahead, we expect our effective tax rate in the fourth quarter of this year to be approximately 25.5% resulting in an estimated full year effective tax rate of around 22%. Of note, we still have substantial NOL carry forwards available to offset any income tax provisions so taxes paid in cash are expected to be substantially less than the income tax expense recorded on our income statement. Net income for the quarter was $1.1 million or four cents per diluted share compared with a net loss of $1.5 million or six cents per share in the prior year quarter. Adjusted EBITDA was $4.7 million up 225% year over year reflecting the cumulative effect of all the contributing factors just discussed. Year-to-date adjusted EBITDA was $14.5 million compared to $10.7 million in the prior year period. Turning to the balance sheet, we ended the quarter with $54 million in unrestricted cash and cash equivalents and $15.1 million in total debt. Our leverage ratio remained below 1 to 1 for the third quarter reflecting the strength of both our growing EBITDA and our low debt load. In summary, we made continued progress in growing systems integration, improving our overall profitability, and executing on our strategic priorities. With continued momentum in systems integration and visibility into our pipeline, we remain confident in our upwardly revised outlook for the remainder of the year and focused on positioning TSS for sustainable, profitable growth. With that, I'll turn the call back over to Darryl.

Darryl Dewan | President and Chief Executive Officer:

Danny, thank you so much. I'm pleased to report that we are executing our plan and our growth outlook is very strong. We're in a very dynamic market environment and we remain focused on profitable growth, strategic enhancements, rapidly delivering solutions to customers and being a great partner with our key customers. Our key hires leading our executive strategy and technology initiatives are making great progress and we're actively engaging in strategic growth discussions. We hope to share news soon. Our team is stronger and focused on execution. Operator, we're ready now to take questions.

Operator | Conference Call Operator:

Thank you. 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 one on your telephone keypad. We do ask if listening on speakerphone this evening that you pick up your handset while asking your question to provide optimal sound quality. Once again, please press star one on your keypad at this time to join the queue to ask a question. Please hold a moment while we poll for questions. And your first question today is coming from Matt Colitre from Needham. Matt, your line is live. Please go ahead.

Matt Colucci | Analyst, Needham:

Hey guys, Matt Colucci from Needham here. Thank you for taking our questions and great to see the systems integration growth in the quarter. On that front, can you share any detail on how consistently you delivered over the minimum capacity amount during this quarter? And are there any sort of guardrails you can give on how much higher systems integration revenue can go, particularly in the context of the 4Q adjusted EBITDA ramp that's now required to hit the increase guide?

Danny Chism | Chief Financial Officer:

Yeah, sure, Matt. Thanks for the question. Yeah, so I would say we are more consistently exceeding the minimum quantities, but not every week. As you know, those are measured weekly. So still some pretty good opportunity, I think, to perform up from where we are currently, but that's certainly reflective of you know, hitting that minimum or exceeding the minimum more often. The other one that was nice to see come back, if you recall last quarter, we had mentioned that we were seeing more AI volume, but we had seen a good bit less of what we call mainstream, which was, you know, traditional CPU, network racks, storage racks. We saw growth in both businesses this quarter, and that's part of what you see in those numbers. As far as guardrails for going forward, I think that's a little tougher to put guardrails on that. We continue to see robust demand. I know the general market is feeling a little bit more pressure right now. Frankly, the volumes we see continue to be huge. So we're excited about it, not just volumes today, but the pipeline. So that, I think, is all encouraging. The other one that should start contributing a good bit in the fourth quarter is, if you recall, we were putting in about $17 to $18 million of CapEx for Vera Rubin readiness. I'm anticipating driving incremental revenue starting in Q4 directly from that investment as well.

Darryl Dewan | President and Chief Executive Officer:

Hey, Matt. Yeah, Matt, Darryll. Let me add to that. Danny, thank you. You asked a good question. What could we do, I think, in the facility where we're at? I think we've got the ability to double or triple the kind of revenue that we have on the integration business in our current facility. As you know, we just added a couple of new warehouse locations just down the street, and we're pretty actively involved looking at the local market to see what else we could expand to if we need to. We're blessed with a good amount of electrical power. We can get more, which is usually the long pole in the tent, getting more electricity to the facility, and I think we're good for that for the time being and the foreseeable future. So I think we're good, and we've got upside where we're at.

Matt Colucci | Analyst, Needham:

Awesome. Thank you for that. And so on that adjusted EBITDA ramp, right, so looking at the The $14.5 million you guys have delivered year to date versus the raised target here and that implied 4Q value. So obviously you spoke about increased revenue, understood on the dynamic with the warehousing where it'll contribute dollars but dilute margin to a certain degree. Is there anything else to consider there that's given you confidence in that raised target?

Danny Chism | Chief Financial Officer:

Yeah, I think you hit on the big ones. The other one, if you recall in my comments that I shared, we will be deploying another MDC in the fourth quarter. So I expect the facilities management revenues to bump up a bit due to that. And that generally comes through at a pretty good margin. If you recall, that business carries roughly a 50% margin, plus or minus a few points. So that should add some. But really, the biggest driver really gets to the rack volume, the incremental contribution from the warehousing that we've expanded into this year, the incremental contribution from the CapEx recapture from the Vera ribbon, and just the pipeline volume that we see coming. We've actively been working that. I know we indicated that last quarter. We are, in fact, seeing the volume that we indicated that we expected to. So those are all, I think, going to be good contributing factors. I expect to continue to see particularly the systems integration revenues increase from here.

Matt Colucci | Analyst, Needham:

That's great. And maybe just one more on, so thinking about that pipeline and obviously the You said you deployed some of that warehouse capacity with more coming on next year, and we've kind of talked in the past about just some steps that your strategic customer is taking with their own supply chain. What did you see this quarter in terms of improvement there that allowed you guys to hit that minimum commitment more consistently, and how much more optimization can be done there?

Darryl Dewan | President and Chief Executive Officer:

Matt, I think what we've actually focused on is operational excellence. And we continue to work on that on a day-by-day basis. And we have a very trusted, collaborative relationship with our key customer. And we're very actively involved in conversations about how we can improve and how we can scale. And we've made some adjustments. We've made some improvements. And frankly, that It coincides with a demand signal that's larger than it's ever been. So it's up to us to continue to lean in in that relationship and make sure we've got the capability to deliver. And we've added people. We've added improved process. We have an initiative underway that is looking at how we can restructure some of the data that we have floating around inside the company that will help us operationally, internally, and leveraging some advanced technology to help us do that. We're looking at ways to automate and streamline some of the process. That all sounds good, but at the same time we have to deliver. And we've been able to deliver, and we've got a ways to go to continue to do that. And I'm optimistic that the relationship that we have will allow us to make the right kind of moves that we need to make to do more business together.

Matt Colucci | Analyst, Needham:

Awesome. Thanks so much.

Operator | Conference Call Operator:

Thanks, Matt. Thank you. Your next question is coming from Alex Furman from Lucid Capital. Alex, your line is live. Please go ahead.

Alex Furman | Analyst, Lucid Capital:

Hey, guys. Thanks very much for taking my question. Congratulations on continued success. Strong results this year. Darryll, what else can you tell us about this 380,000 square foot warehouse that you're leasing? Can you tell us a little bit more about how that's going to enable you to grow more? You mentioned some things you'll be able to do with it, like helping customers warehouse additional pieces of equipment. I imagine you're not getting into this new space just to be You know, warehousing equipment. Can you help me understand a little bit more about how this is going to unlock more growth for you and what this is about?

Darryl Dewan | President and Chief Executive Officer:

Alex, good to hear from you, bud. Well, I can tell you I saw the biggest lizard I've ever seen in my life in that new facility and probably as many cockroaches as we've ever seen before, but I think we're good now. And so the two facilities are largely designed to be storage and staging of inventory. for our key customer relationship. There's a great opportunity for us to leverage the proximity to do more and to deliver faster. And we have an advantage. Our advantage is it's right down the street. We have now a heck of a lot more space to store inventory. And like I mentioned earlier in the comments, The area that we're in, we're good with

power for the foreseeable future. And there are other locations that would allow us to expand if we needed to, to do more integration work, both with our existing customer and possibly to do some expansion outside with new customers. And of course, we're very conscious of our relationship with our existing strategic customer to make sure we don't do anything that goes out of bounds, so to speak, or competes. That's just a good business proposition that we march to. It's our goal. So the space is important. It's a significant amount of space. In addition, we've got the Round Rock facility being used for inventory as well. So let's not forget about that site. And that's a lot of space. That's a lot of inventory. And we're thinking we're going to need more. Well, we're planning for more. If we need it, we'll be ready.

Alex Furman | Analyst, Lucid Capital:

Okay, that's really helpful. And then, you know, Darryl, obviously, you know, your stock's taken a big hit with everyone else over the past couple of days here. Can you give us just a little more understanding about, you know, where the server racks that you're putting together are being used, you know, if there were to be a little bit of a slowdown in new data center construction? in the US. I mean, what does that do to your business? What are the opportunities for you to keep growing through something like that?

Darryl Dewan | President and Chief Executive Officer:

Oh, that's a good question, Matt. How much time do you have? I can tell you that, you know, from a standpoint of what's happening politically, we're just focused on execution. We don't see anything yet that has any material impact whatsoever. And we are prepared to adjust if we need to. But you think about the data center market I mean, we're talking about, you know, there are data centers in motion that are going to be in, you know, they're under construction as we speak. And the ones that we're largely concerned about, I think, are years down. And, you know, the moratoriums you read about and hear about, that's all, you know, that's all fine and dandy. But, you know, what we're focused on is making sure we deliver to the customer demand signal. And it remains very strong. So we haven't seen anything yet that is concerning. We keep our eye out, of course, to make sure we're ready in case of anything. But right now, the way we're expanding with our rack integration and our systems integration business is it's AI, it's high performance computing, it's network oriented, it's air, it's direct liquid. And, you know, we've got a span. It's not just one product line. It's a variety of technologies. So, you know, I think that the I think the data center topic concerns me from the standpoint that I worry about the tighter constraints and the impact it will have on the United States and its ability to be competitive. Technology is an advantage in the world. And I think we'll be okay. I think we're going to just work through all this. And for us, we're just going to stay focused.

Chris Tuttle | Analyst, Blue Caterpillar:

Great to hear it. Thanks very much, Darrell.

Darryl Dewan | President and Chief Executive Officer:

And by the way... Yeah, I'm sorry, Danny. One other thing Alex was going to add is we're seeing an increase in conversations and interest in prefab and the modular data center space, which is really a faster time to market than expanding a data center in spite of everything we just talked about. And it's very socially responsible. It's... Thank you. Your next question is coming from Mac First from Singular Research.

Operator | Conference Call Operator:

Mack, your line is live. Please go ahead.

Mac Furst | Analyst, Singular Research:

Thank you. This is Mack Furst for Singular Research. I have a quick question about the seven-year agreement with your primary customer that you spoke about. Can you associate a dollar amount to that seven-year agreement, please?

Danny Chism | Chief Financial Officer:

We didn't put a dollar amount on that, Mack. It's probably not one that I would put a specific number on. You can probably look at prevailing rates for the rent piece of it itself, but that would be the minority of the revenue and the cost. Really, that ties more into the warehousing activity and the people of running it and logistics of shipping material from there to our integration facility. I'm not sure we'll spike that out separately. I do expect that to contribute to the fourth quarter. But as I said, it's going to be a little bit lower margin than our normal systems integration business. But all by itself, it will still generate a positive margin. So anything additive there will be additive to the total.

Mac Furst | Analyst, Singular Research:

I understand. Thank you.

Danny Chism | Chief Financial Officer:

By the way, congratulations on the quarter.

Operator | Conference Call Operator:

Thank you.

Danny Chism | Chief Financial Officer:

Appreciate it, Matt.

Operator | Conference Call Operator:

Thank you. And as a reminder, if you wish to join the queue to ask a question at this time, you can press star 1 on your telephone keypad. Once again, that'll be star 1 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:

Hey, fellows. Thanks for taking my questions. I'm going to limit it here. So great job on the systems integration revenue growth. It's the one we've all been focused on. And I'm curious, if we look at the investments you're making in inventory, management, supply chain, let's call it, do those investments help you with maintaining a consistent and the systems integration revenue line. For instance, you talked earlier in the call about meeting

your minimums and will those investments basically enable you to remove some of the governors on your ability to generate as high revenues in future quarters?

Darryl Dewan | President and Chief Executive Officer:

Hey, Chris. Good to hear from you. Absolutely, the answer is yes. So the investments we've made were designed and are in motion to help us get the additional volume. Simply put, that's why we made the investments, and it's important for us to continue to look at how can we make additional investments, if needed, to scale. So we made the investments in power. We made the investments in validation stations and the configuration of power. So we're Vera Rubin ready, and we anticipate demand from Vera Rubin December, January. The increase in business that we've seen so far is around a number of different products. So we're excited about the bigger picture of where we're going, but so far the investments we've made are absolutely designed to help us get more business volume.

Chris Tuttle | Analyst, Blue Caterpillar:

Okay. A couple of technical questions. You know, NVIDIA was at the Open Compute Forum and they were talking about how challenging they found 800 VDC versus maybe what they thought before they started. And it sounds like you all are prepared for that if you're going to be integrating VR systems in December, January. Could you maybe just add a little of your Thank you, Chris.

Darryl Dewan | President and Chief Executive Officer:

Chris, you broke up just a little bit when you were referring to the NVIDIA. Maybe it's on my end. Would you repeat that section?

Chris Tuttle | Analyst, Blue Caterpillar:

Really, I'm just asking about, it sounds like you guys are comfortable and confident in your 800 VDC power solution to support Vera Rubin, and I just wanted a little bit more color from you on that because not everybody has had that kind of experience with moving to 800 VDC?

Darryl Dewan | President and Chief Executive Officer:

Good question. We're ready is the way I would answer. We're ready for that. I wouldn't say we're comfortable because you never really get comfortable in the business we're in, but we're optimistic. And I think We'll see how this all plays out. It's really kind of early, too early for me to comment more on that, other than we're ready and we'll adapt as we go.

Chris Tuttle | Analyst, Blue Caterpillar:

Okay. You know, the last thing, and then, you know, I'll follow up with you later, but remind me what is in the RPO line, the big chunk of it, you know, the, I think the majority, 100 million plus, what Remind me what's in the RPO line.

Darryl Dewan | President and Chief Executive Officer:

I'm not sure what the RPO line is. What's that mean?

Chris Tuttle | Analyst, Blue Caterpillar:

Maybe that's, Danny, you know, remaining performance obligations. It's in the queue, not the chip. Oh, yeah, sorry. Oh, oh, oh, oh, got it.

Darryl Dewan | President and Chief Executive Officer:

I thought that was a new chip.

Chris Tuttle | Analyst, Blue Caterpillar:

Oh, sorry. No, I mean, you know, RPO is not a bad name, but, you know, Danny knows what I'm talking about.

Danny Chism | Chief Financial Officer:

Yeah, the reference to RPO threw me, but yeah, remaining performance obligations. So there's some involved in that in our multi-year AI rack integration business where we are committed to perform that for a certain period of time. And then also what you're seeing in there now are some incremental services that are required around the warehousing services. So where that in the past may have been a little more useful in predicting kind of future systems integration revenues. It's really more of a mixed bag of a couple of different service lines there, but it's still tied primarily to systems integration.

Chris Tuttle | Analyst, Blue Caterpillar:

Okay. And then I want to just circle back on, you know, maybe a question I could have asked more precisely. It sounds like you're expecting Vera Rubin integration requirements and commercialization to be happening in Q1 of 2027 based on everything that you see?

Darryl Dewan | President and Chief Executive Officer:

Yes, Chris, we're ready. And we expect some of that volume to come our way. And we anticipate it December, January. And we're excited about it.

Danny Chism | Chief Financial Officer:

Chris, frankly, some of the hedge there is we're ready to do Vera Rubin integration right now. We're built out to be able to handle that. But frankly, some of the volume that our customer is seeing in other products is so huge that they've asked us to, at this point, concentrate on addressing some of that need. So while we're ready to do a lot of the Vera Rubin racks, we're not seeing a whole lot of that yet today. just because of the huge volume in other stuff. Okay.

Chris Tuttle | Analyst, Blue Caterpillar:

All right. Well, listen, you know, as Darryl said, you know, how much time do you have? Well, I'll circle back with you guys later on. But, you know, congratulations. Great momentum in SI revenues, which is the key. And it sounds like you've got great visibility. So thanks for the time. Thank you, Chris.

Operator | Conference Call Operator:

Thank you. Your next question is coming from Maj Suden. from GEO Investing. Maz, your line is live. Please go ahead.

Maj Suden | Analyst, GEO Investing:

Thank you. Hey, guys. Thanks for taking the call. A quick question on the modular side of business potential. I'm wondering if you could maybe give a brief description of the scope of the modular kind of opportunity. You know, when people think modular, including me sometimes, I'm like, you know, I've been using are going to be like hyperscalers deploying these modular data centers on-site, or are they more like edge modular type of applications? I'm wondering where you fit in and how the scope of opportunities expands with regards to what you can or can't do there.

Darryl Dewan | President and Chief Executive Officer:

Hey, Maj. Cheryl. Good to hear from you, bud. So historically, we've deployed MDCs, modular data centers, in very remote locations closer to the edge where the Power is cheap, land is cheap, access to water for hydro, and it's worked out pretty well. And it's been pretty flat for us, largely because of the way we've been going to market. Our focus has shifted to the integration business, but lately, the conversation has has moved to prefab solutions where you have a self-contained unit, which you know about, like the container, where we now integrate the IT packs with cabling and we've got the power and everything. And a lot of it is now, the conversation is all about direct liquid, the advanced technology as well. And you integrate it so that you're basically doing what we call L12. We do L11, which is the integration in our factory, but L12 is you put it all together with a network and it's all integrated ready to go and you deliver it on either a SCID or a ISO type of container and that conversation has increased quite a bit and we're in some very interesting discussions about at preliminary but preliminary discussions about how to go do that and at scale so it varies from a 1Z, 2Z for a large enterprise or medium-sized enterprise at the edge put it near the where you need it, if you will, for network latency to manage the environment better, put it closer to the action as we refer to it, or you're building it out as a faster time to market solution for a large enterprise. If that makes any sense. And if you know the, and I know you know this, the hyperscaler world uses are all modular. And it's a viable alternative. So we'd like to be in those conversations.

Maj Suden | Analyst, GEO Investing:

Great, great. That helps a lot. And I guess I'm assuming that with this direction you might be going, there's different types of integration that are needed, different cooling maybe needs, different equipment. Are you prepared to serve those procurement needs now or... Are there relationships or things you need to do to make sure you can kind of, you know, support maybe the different types of technical needs for these, somebody as status manager looking at here, these prefab modules?

Darryl Dewan | President and Chief Executive Officer:

Well, we're in conversations about all of that. And are we prepared to deliver today now is an operative word, and the answer is no. But we are prepared to do the integration work We are now working with an engineering organization to help us do the design of a container, everything with the exception of the compute capabilities so an end user gets to decide what they want, who they want to buy from. And when you get into the hyperscaler world, as you know, much of that compute capability is being manufactured for them specifically by the ODM of choice. So we'd like to get in the middle of that where it makes sense. And that is a unique situation that we're in right at the moment. We have the skill set to deploy and integrate and do the sustaining maintenance. We've done that. We continue to do that today. We're moving into the engineering area, and we're talking about how do we deploy the more advanced technologies in a unit that can be deployed closer to the action. So it could be interesting. I think it's an exciting result, I think, of what's happening with the whole data center discussion today. And people are pivoting to an alternative.

Maj Suden | Analyst, GEO Investing:

I have two more questions around that real quick. The first one would be, I know when you were talking about module data centers over the last two years or so, part of the challenge was supply chain kind of issues and being able to get what you need to commit to these things. They have long lead times. Does the prefab a quicker kind of deployment thing, a quicker supply chain type of trajectory there to be able to kind of serve somebody's needs?

Darryl Dewan | President and Chief Executive Officer:

Yeah, and you're right. Thank you for reminding me of the days when you couldn't get a container. It took 12 plus months. That's over with. That's not the issue anymore.

Maj Suden | Analyst, GEO Investing:

Excellent. And then finally, so when we're talking about your modular opportunity, this is I'm assuming going to have higher margins than the current. Well, I don't know. That is the case. We talked about modular in the past. We weren't talking about prefabs. So I guess could you talk about the margins maybe of the prefab opportunity? And does it open your ability to now get revenue outside your biggest customer into other customers?

Darryl Dewan | President and Chief Executive Officer:

The margin opportunity is strong. And you know the old expression, pigs get fed, hogs get slaughtered, right? So we're going to do what we can to do the right thing. And yes, what we're talking about would absolutely be not competitive with what we do with our existing customers.

Maj Suden | Analyst, GEO Investing:

And there'll be no restrictions to you manufacturing these things in the current facilities that are basically kind of been financed by, you know, your bigger customer?

Darryl Dewan | President and Chief Executive Officer:

We would do it in a... Yeah, we would... We would not do it in any facility or use any of the people that we have in place for our existing relationship. It would be something completely different.

Maj Suden | Analyst, GEO Investing:

So some of the expansions you're talking about are probably more in line with maybe with the modular opportunity?

Darryl Dewan | President and Chief Executive Officer:

That's what it is right at the moment, yeah. Very significantly that way, yes.

Maj Suden | Analyst, GEO Investing:

Well, thank you very much, Darryl.

Darryl Dewan | President and Chief Executive Officer:

Good to hear from you, Maj.

Operator | Conference Call Operator:

Thank you. This does conclude today's question and answer session. I would now like to pass the floor back to Darryl Dewan for closing remarks.

Darryl Dewan | President and Chief Executive Officer:

Great. Well, thanks everyone for joining us as we reported an exciting quarter. We look forward to accelerating our revenue and earnings growth in the fourth quarter as we discussed and also beyond. All of this is bolstered by the significant growth in our higher margin systems integration business as we've been discussing, and a trusted history of collaborative business relationship with our key customers. We will continue to pay close attention to market dynamics and the opportunities to advance our business and technical capabilities. We live in exciting times, we're very focused, and at the end we appreciate your continued support and we're very optimistic about our future. So thank you very much for joining us on this call.

Operator | Conference Call Operator:

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