

Power Integrations First Quarter 2026 Earnings Call – May 7, 2026

Corrected Transcript

Joe Shiffler – Sr. Director, Investor Relations & Corp. Communications:

Good afternoon and thanks for joining us. With me on the call are Jen Lloyd, our CEO, and our CFO, Nancy Erba. After Jen and Nancy's prepared remarks, we'll open it up for questions.

Our discussion today will include forward-looking statements denoted by words like "will," "expect," "should," "outlook," "forecast," and similar expressions that look toward future events or performance. Such statements are subject to risks that may cause actual results to differ from those projected or implied. Such risks are discussed in today's press release, in our most recent Annual Report on Form 10-K, and in subsequent Quarterly Reports on Form 10-Q including the one filed this afternoon with the SEC.

During this call we will refer to financial measures not calculated according to GAAP. Non-GAAP income-statement measures in the first quarter exclude stock-based compensation expenses, amortization of acquisition-related intangible assets, restructuring charges, and the tax effects of these items. A reconciliation of non-GAAP measures to our GAAP results is included in today's press release and in the accompanying slides, both of which can be found on our investor website at investors.power.com.

This call is the property of Power Integrations, and any recording or rebroadcast is expressly prohibited without the written consent of Power Integrations. And now I'll turn it over to Jen.

Jennifer Lloyd – Power Integrations Inc – President and CEO

Thanks Joe and thank you everyone for joining us today. I'm pleased with how we have started the year with Q1 revenue of \$108M dollars and non-GAAP earnings of 25 cents per diluted share. Industrial was the main driver of revenue growth again this quarter, up 23 percent year-over-year. Consumer revenue was down compared to the first quarter of 2025, which was unusually strong due to tariff-related pull-ins in appliances. However, we saw a 17 percent sequential increase in Q1 as that inventory build appears to have cleared. Looking ahead, while visibility is somewhat hampered by the ongoing macro uncertainty, we have seen an increase in order activity since our last earnings call, and we're forecasting seasonally higher revenue in the second quarter, along with a higher gross margin.

Just as importantly, we are making good progress on our strategic focus areas:

- Customer-centricity
- Streamlining our product pipeline for time to market; and
- Operational and organizational efficiency

Firstly, we are improving alignment between our commercial and engineering teams to bring the customer's voice closer to our product development process. Reinforcing this customer commitment, earlier this week we announced the addition of Mike Balow to our leadership

team as SVP of worldwide sales. Mike is a veteran sales leader with deep experience in power, having led the sales organizations at onsemi, Infineon and Cypress. I'm excited to have him on the team, and I'm confident that he will both strengthen our existing relationships and help us expand our customer reach in markets like data center and automotive.

Secondly, we are streamlining our product pipeline to accelerate time to market on the projects most tightly aligned with our target markets and long-term strategy. And finally, we are implementing organizational changes to drive operational effectiveness and redirect resources, both functionally and geographically, to the opportunities most critical to our long-term growth.

Although it will take time for these changes to be reflected in our results, I am encouraged by our progress, and over time you will see product releases with quicker time to revenue based on earlier customer engagement and improved alignment between our products and customer needs. For example, our new TinySwitch™-5 is off to a strong start, with a wide range of designs set to ramp in the second half of the year, and we also expect a nice ramp with TOPSwitch™-GaN, which we introduced at the APEC show in March.

The TinySwitch and TOPSwitch names are well-known in the power supply industry, with billions of units shipped and an embedded base of designers accustomed to using these proven architectures. Even as we pivot toward the AI data center, industrial and automotive markets, we are refreshing these existing product families to sustain and grow core markets like appliances, where reliability and efficiency are highly valued, and dollar content is rising along with appliance power levels.

The addition of a PowiGaN™ switch more than doubles the power capability of the TOPSwitch architecture to 440 watts, so designers can now use the classic flyback topology for a wider range of designs than ever before. The flyback topology offers a variety of benefits including smaller board footprint, faster design cycles, high standby efficiency, and lower component count. In fact, a flyback power supply can save up to 30 percent on both component count and BOM cost compared to the more complex topologies typically used above 200 watts.

TOP-GaN is already opening doors for us at new customers designing high-power chargers for industrial applications, drones, and e-bikes, where flybacks now have access to sockets that have historically been off-limits. We are also seeing strong engagements at appliance customers, many of whom have been using TOPSwitch for years and are excited to realize the efficiency benefits of GaN in their designs.

In automotive, we are currently in production or in design engagements with 17 of the top 20 EV manufacturers, and we are on track to double our automotive revenue this year. In the first quarter we won a new emergency power supply design with China's second-largest EV OEM, and as mentioned on last quarter's call, we also began production in Q1 at a major German carmaker, using a platform developed as part of its joint venture with a US EV OEM.

As we continue to accumulate wins for inverter emergency power supplies, we are also expanding engagements with customers for next-gen EVs featuring micro-DC-DC converters. These power supplies will bypass the 12-volt batteries used in today's EVs, instead powering subsystems directly from the main high-voltage battery. We are also developing products for higher-power sockets such as onboard charging, utilizing our 1250-volt GaN technology. As we expand our automotive product portfolio to address evolving EV architectures, we see addressable dollar content rising from single-digit dollars today to tens of dollars in the near term a hundred dollars per vehicle over the next several years.

Our high-power business, which sits in the industrial category, continues to grow at a healthy pace driven by a diverse set of verticals including electric rail, renewables, oil and gas, and power grid applications including DC transmission and power quality. Key design wins in Q1 included a design for six-megawatt wind turbines at a European customer and a STATCOM power conditioning design for an Indian customer.

Lastly, turning to everybody's favorite topic, data center, we continue to pursue multiple paths to growth with our unique PowiGaN technology. Our ongoing collaboration with Nvidia includes a variety of sockets utilizing our 1250- and 1700-volt GaN technologies in the forthcoming 800-volt DC architectures.

We continue to gain share in auxiliary power supplies for today's data centers, winning two new designs in Q1 at Taiwan customers serving US equipment makers. We also have ongoing customer engagements on upcoming, higher-power GaN products for rack-level AC-DC conversion.

The data center rack is one of the most attractive opportunities in power semiconductors today. We believe our differentiated GaN technology gives us a significant competitive advantage, and customers are looking to us as they develop long-term roadmaps calling for higher voltages and improving power density.

But our opportunity in data center goes well beyond the rack. The demands that data centers are placing on the power grid are just as important and challenging, and we are well positioned to respond with our high-power products.

Power grids are rapidly evolving to support the estimated 200 gigawatts of power needed for data centers by 2030. Renewable energy, including dedicated installations for data centers, is certain to become a bigger part of the energy mix, accompanied by battery storage to ensure consistent availability. High-voltage transmission lines will deliver renewable energy to the grid or directly to the data center, and solid-state transformers will convert power at the front end of the data center to be delivered to the rack.

The value of our gate driver products is proven in renewable energy, battery storage and high-voltage transmission, which together accounted for about 40 percent of our high-power revenue in the first quarter. We have a strong offering for solid-state transformers as well, with a differentiated driver solution for silicon-carbide modules.

We have a variety of data-center-related customer engagements underway in high power, and we anticipate that opportunities related to the data center buildout will add hundreds of millions of dollars to our SAM for gate driver products in the years ahead. Altogether, we estimate that our datacenter SAM including rack and grid applications will exceed a billion dollars by 2030.

In closing, the opportunities ahead of us grow more attractive by the day as markets demand more of the technology and system expertise that Power Integrations has developed over many years. We are a pure-play high-voltage company, with foundational technologies like PowiGaN and SCALE gate drivers backed by deep system expertise, and we are building an organization capable of turning our foundational advantages into long-term value for our customers and shareholders.

Now I'll turn it over to Nancy for a review of the financial highlights.

Nancy Erba - Power Integrations Inc – Chief Financial Officer

Thanks Jen, and good afternoon. Before I cover our results, I'd like to direct you to the supplemental information shared with our press release this afternoon. There, you will find many of the financial details we normally share in our prepared remarks in addition to a GAAP to Non-GAAP reconciliation.

We had a very solid start to the year with Q1 delivering revenue growth with key financial metrics at or better than our outlook. We also improved our balance sheet as we generated 18 dollars million of free cash flow and reduced inventory both on the balance sheet and in the channel.

Revenue was 108.3 million dollars, up three percent from a year ago and five percent versus Q4 of last year. Our industrial business continues to perform well with sequential growth of 15 percent in Q1. The communications and computer categories were down seasonally, while consumer revenues were up 17 percent sequentially with the recovery in appliances.

Turning to gross margin, non-GAAP gross margin was 53.5 percent for the quarter, right at the midpoint of our range and up 20 basis points sequentially. While end-market mix was favorable, we saw less benefit from the yen-dollar exchange rate in Q1 due to the stronger yen in the early part of 2025. As a reminder, there is currently about a one-year lag between fluctuations in the yen and the resulting impact on our P&L.

Non-GAAP operating expenses were 45.3 million dollars, coming in below our outlook range of 45.5 to 46.5 million. This resulted in non-GAAP operating margin of 11.7 percent, up 200 basis points from the prior quarter. Expanding our operating margin is an important priority for us. We are tightly managing the investment decisions that drive our customer focused technology development and product roadmap addressing the highest growth markets.

During our Q1 restructuring we evaluated our engineering resources across the organization and determined that in order to better drive the roadmap requirements of our customers, certain engineers previously accounted for in our marketing organization would be more fully dedicated to development project work and moved into R&D. These changes were effective at the time of the restructuring in early February, and resulted in approximately three million dollars of R&D expense in Q1 that would previously have been included in SG&A. All investments in SG&A are evaluated with similar rigor.

Continuing down the income statement, non-GAAP net income was 13.9 million dollars or 25 cents per diluted share.

Our GAAP results include 6.6 million dollars of restructuring charges, primarily consisting of severance payments related to the restructuring activity we announced in February. 6.2 million dollars was in GAAP OPEX, with the remainder in cost of goods sold.

Turning to the balance sheet and cash flow - - Cash flow from operations was 20 million dollars for the quarter, while capex was two million dollars. Our 2026 plan still calls for capex of five-to-six percent of revenue for the year. We are applying the same ROI-based discipline to capital decisions that we are to operating expenses, and expect to see capital expenditures more heavily weighted to the second half of the year.

Inventory decreased by four million dollars during the quarter, while days on hand fell by 21 days to 292 days at quarter end. Our target is to bring days on hand below 200. Channel inventory also declined during the quarter, falling by half a week to 8.9 weeks and nearing our target of 8 weeks. I expect further improvement in both metrics throughout the year.

I'll now review the second-quarter outlook. We expect revenue to be between 115 and 120 million dollars, which would be up 8.5% percent sequentially at the midpoint.

Communications and computer should have the largest increases in percentage terms coming off the seasonal lows in Q1, with industrial also up sequentially. We expect a sub-seasonal quarter from consumer, with positive air-conditioning seasonality offset by ongoing demand headwinds in major appliances.

I expect non-GAAP gross margin to improve sequentially, with a range of 54 to 55 percent. At the midpoint that would be an improvement of 100 basis points from Q1, primarily due to manufacturing efficiencies and volume-related benefits of the higher revenue, as well as the dollar-yen exchange rate.

Non-GAAP operating expenses will be sequentially higher in Q2, with a range of 47 million dollars plus or minus half a million. The increase from Q1 mainly reflects annual merit increases, which took effect in April. I anticipate that OPEX in the second half will remain roughly flat with the Q2 run-rate, putting us on track for low-single-digit growth in 2026. Our intent is for OPEX to grow at a rate of less than half of revenue growth over time. Finally, I expect non-GAAP operating margin to be between 13.5 and 15.5 percent.

In closing, I am encouraged by the demand we are experiencing in the first half of the year and that the markets we compete in appear largely healthy. We are excited by the opportunities in front of the company and focused on executing to the long-term growth drivers in data center, automotive, and industrial. And, importantly, we are continuing to stay agile - - cognizant of the macro and geopolitical uncertainty we operate within and will continue to manage the business accordingly.

After a full quarter in the CFO role I'm confident in the direction we're heading as a company, and our ability to achieve faster growth, improved profitability, and increased shareholder value. I'd like to thank the POWI team for their continued commitment to innovation, customer success and execution excellence, and to our partners, customers and shareholders for their continued cooperation and support.

And now operator let's begin the Q&A session.

Questions and Answers

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

I guess starting out, I guess, compute and comms has been disappointing for quite some time, but particularly in March. I know there's some seasonality there. I guess how are you thinking about these markets going forward? They are obviously kind of subscale, I think, probably at this point in time. Maybe you can talk about what your strategic plan is for these moving forward? Are you deemphasizing these markets? How should we think about them and maybe the mix of end markets moving forward for you guys?

Jennifer Lloyd - President and CEO

Okay. Great. Thank you, Chris, for the question. So in terms of compute and comms in Q1, we do expect that to be seasonally a low quarter. So we're expecting those to be seasonally up in Q2. You're correct that they are two of the smaller of our market areas. So in terms of the strategic plan and are we deemphasizing, we're not deemphasizing those areas. We continue to look at those as there's opportunity there. I talked in the prepared remarks about the TopGaN and Tiny. I mean those are serving applications across the spectrum of our market segments. So we continue to nurture those areas. And when you look at those for the year, yes, they're not the biggest growth drivers, but they're also not the largest part of our business.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Great. And perhaps on your favorite and everyone's favorite topic, AI. You had some great detail on aux power and solid-state transformers, et cetera. But perhaps if you could talk about GaN and maybe even silicon opportunities, but mostly GaN, like how are engagements going on the main power? And as we think about the powertrain applications, are we talking about interest in power delivery boards or IBCs or power supplies? Where are you getting the most interest? And is there any -- are there any applications I left out that you might be engaged in for your GaN portfolio?

Jennifer Lloyd - Power Integrations Inc - President and CEO

Yes. I mean thank you for asking the question about our favorite topic. I think it's going great. I do want to emphasize that the aux and the SST opportunities, those are the shorter-term opportunities for us. But we do have ongoing engagements for those as well as on the opportunities for GaN. And we are seeing there's a real pull for our high-voltage GaN technology for the high-voltage architectures, the 800-volt architecture in particular.

Our GaN works natively at 800, 1,200, 1,250, 1,700 and offers a simpler design. So even in our discussions with NVIDIA a couple of weeks ago, we are learning about additional sockets where our technology is a great fit. I think where there's the most interest across applications, we are engaging across the whole data center ecosystem. So hyperscalers, server OEMs, rack providers, power supply providers, and we're finding opportunities across all of those.

Ross Seymore - Deutsche Bank AG - Research Analyst

Thanks for letting me ask a couple questions. I guess my first one in the near term on the consumer segment, I know you split the kind of air conditioning versus the white goods side, but the appliance market doesn't sound so great to put it mildly if you listen to Whirlpool and others. So when you say that's subseasonal in the second quarter, what do you mean? Is it still going to be up? Or will it be down? And how do you think you guys address that market over time? If the market is weaker, do the inventory dynamics allow you to still grow? Or is that something that's going to be a challenge that's going to last a little bit longer?

Nancy Erba - Power Integrations Inc - Chief Financial Officer

So I'll take that one. Just as I said in my comments, all of the markets will be up, although on the consumer front, it will be very modestly up, so think flattish. And that is a balance, as we commented, between some of the pressure on appliances that you referenced, but also there are some offsets within our portfolio. So net-net, flat to slightly up.

Certainly, the other markets are growing faster in Q2 from the standpoint, both of dollar and percentage. And we're really pleased with the demand that we've seen thus far in the first half and the continued strength we're seeing in Q2. So net-net, a good first half, and we're off and running through the year.

Ross Seymore - Deutsche Bank AG - Research Analyst

Great. And I guess following up, I'll follow the same trend hit on the AI side. How do you envision the time to market for these different opportunities, whether it be the percentage of your business that you think it will represent this year, next year and the year after, if you want to talk about the aux and the SST side versus some of the bigger ones. How should we think about how those fold in just kind of timing-wise, not necessarily magnitude, even though I'll take that if you'll give it.

Jennifer Lloyd - Power Integrations Inc - President and CEO

Yes. Thank you, Ross. I think the -- I mean, the aux, obviously, those are opportunities now, and we continue to see a sequencing of opportunities. There's continuous new designs, I think, in this space for aux and SST, and we continue -- we talked about a couple of those wins that we're seeing. I think for the high voltage, we know that, that's longer term for us, right? So that's not next year, that's in a couple of years basically.

So what is encouraging is that it's a continuous sequencing of wins. And so we're expecting that as those 800-volt systems come online, there's going to be the momentum we already have and then some continued momentum from the new systems, but it's a couple of years out.

Nancy Erba - Power Integrations Inc - Chief Financial Officer

And I think just to reiterate, Jen mentioned in her comments that we expect that to be at least \$1 billion by 2030. We're continuing to size it. As new sockets become available to us and as conversations continue and we find new places where our technology can be a good fit, we continue to evaluate that and size it as we go quarter-to-quarter.

David Williams - Needham & Company LLC - Analyst

I guess to continue on that data center topic there. You talked about it being maybe \$1 billion in possible TAM for you all. How do you think about the GaN portion of that specifically? And maybe you can just kind of speak to that level of engagements you're having today. Clearly, you have one of the highest power capabilities in the market. I would presume that you're certainly leading those discussions. But just curious how that traction has been going there, specifically on the GaN and how you see that from a size perspective?

Jennifer Lloyd - Power Integrations Inc - President and CEO

Thanks, David. And by the way, congrats on the move. Yes. So in terms of the GaN, I mean, we really do see a bulk of that being the GaN. I think it's a split between inside the data center and outside the data center. The outside the data center would be our gate driver product family. Inside the data center, where we really have the advantages is with GaN. So we see that as mostly GaN.

David Williams - Needham & Company LLC - Analyst

Great. And then it sounds like on the automotive side, you're making some really nice progress there as well. And I know in the past, the prior leadership had talked about this being a multiyear kind of a strategy. But I feel like maybe your strategy is helping drive penetration and you're certainly building product road maps towards your customers. And I guess maybe how do you think about automotive and how that is developing for you? And how should we think about that maybe revenues over the next 12 to 24 months from that auto segment?

Jennifer Lloyd - Power Integrations Inc - President and CEO

Yes. I mean I think we are making good progress with that. We're winning designs. As you know, we've talked about winning designs in the inverter emergency power supply. That's not huge revenue, right? But we are seeing engagement with that. What we're looking at is expanding into other parts of the automobile and expanding our BOM content.

So it's been slow. I think the market has been slow. And so we've talked a little bit about a pushout. I think we've mentioned this in previous calls that, that revenue for us is going to push out. But as we build up additional sockets that will accelerate that growth. So we're -- we put a \$100 million target out there for 2029, and we still feel like we're making good progress towards that.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Congrats on the progress. I guess my first question is on the restructuring and moving some people from marketing to engineering. I just want to understand that a little bit better, Jen, because I assume these are probably more technical sales or marketing people. And you did obviously talk about you want to improve the time to market by actually being closer to customers with the R&D. So yes, if you could just explain the changes, that would be great.

Jennifer Lloyd - Power Integrations Inc - President and CEO

Sure, Tore. Thanks for the question. Yes, those are technical resources. And I'm going to let Nancy talk about it if that was it.

Nancy Erba - Power Integrations Inc - Chief Financial Officer

Yes, sure. So we talked about this in the last call, right? As part of the restructuring, we really are going line by line and evaluating our resources, how do we shift to be more customer focused. And as part of that, there were certain -- these are application engineers that were previously sitting in marketing.

And when Chris Jacobs joined and is really emphasizing how do we get closer to the customer and bring that customer input in, we found that those resources really should be more prioritized and more focused towards the product development piece of their work. And so we, at the time of the restructuring, made that move. So it was effective February 1 with the rest of the restructuring activity, and we'll continue that forward.

The other piece of that is that as we think about where those resources are focused, which products they're focused on, making sure that we're prioritizing those dollars to the most important markets that we serve and to the products that are going to give us the highest ROI. So there's a lot of work behind the scenes that's happening to make sure that, that portfolio is really tightly aligned to what we're hearing from our customers and what we need to deliver to the market over the coming years.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Very good. And I want to follow up on the inventory topic, both internal and the channel, obviously, you're trying to get it down to 200 internally. You're trying to get it to eight weeks in the channel. And obviously, demand is what's going to eventually get you there. But are you doing anything else proactively to perhaps get to those types of targets, I guess, especially on the channel side? And when could we potentially think about POWI being back to those types of numbers?

Nancy Erba - Power Integrations Inc - Chief Financial Officer

We're not doing anything unnatural in the channel. I mean the demand is good. The first half demand is -- we're very pleased to see it, and it's across the board as we talked about. So nothing unnatural there. As we see revenue progress through the second half, we would expect to exit at that 8 week, potentially a little below there. It will just depend upon the demand environment at the time.

On the inventory that we hold on our balance sheet, we are putting a very concerted effort on that. That is cash, the way I look at it. And we're making sure that we're reviewing that. We have now an ongoing cadence looking at that inventory and the approval process to bring anything new in, right, goes through the same ROI rigor that we're putting across the company, whether that be in OpEx, inventory, CapEx. It's been -- and the team has really responded well, and we're seeing great execution there. So expect the inventory on our balance sheet to also continue to step down as we move through the year.

Operator

There are no further questions at this time. I will now turn the call back to Jen Lloyd for closing remarks.

Jennifer Lloyd - Power Integrations Inc - President and CEO

Thank you, everyone, for joining us today. I'm really optimistic about the opportunities ahead of us. Electrification, AI and the rapidly transforming power grid are set to drive demand for advanced high-voltage semiconductors for many years to come, and PI is well positioned to capitalize with a strong technology foundation and a deep well of expertise in high voltage. In just a matter of months, we've assembled a transformational leadership team capable of translating innovation into sustainable, profitable growth. I want to thank our investors, our customers, and suppliers for partnering with the PI team.

Thank you, and good afternoon.