Power Integrations Third Quarter 2026 Earnings Call – November 4, 2026

Corrected Transcript

Joe Shiffler - Power Integrations, Inc. – Sr. Director - Investor Relations and Corporate Communications

Thanks, Ben. Good afternoon, everyone. 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. Slides accompanying today's earnings release and conference call can be found on our investor website at investors.power.com. 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. During this call, we will refer to financial measures not calculated according to GAAP. Non-GAAP income statement measures exclude stock-based compensation expenses, amortization of acquisition-related intangible assets, accrual for a judgment in a legal matter, a restructuring charge recognized in the first quarter of 2026, 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. This call is the property of Power Integrations, and any recording or rebroadcast is expressly prohibited without the written consent of Power Integrations. Now I'll turn it over to Jen.

Jen Lloyd - Power Integrations, Inc. - President and CEO

Thank you, Joe, and thanks, everyone, for joining us. We delivered solid Q3 results with revenue up 5% sequentially, led by strong growth from GaN products. We beat our outlook on gross margin and expenses, reflecting our continued emphasis on profitability. Our non-GAAP operating margin was up more than six points year-over-year in Q3, while non-GAAP EPS rose by 28%. These results demonstrate that we are executing well across our end markets.

Industrial demand remains healthy, with particular strength in energy infrastructure and rail. In fact, we currently have more demand than we can satisfy in our gate driver business due to certain supply constraints. In personal electronics and computing, we saw strong sequential growth in Q3 driven by new GaN design wins and seasonal ramps. While memory shortages are a factor in these markets, the impact on our business is mitigated by our customer mix and new design wins.

In the consumer market, which makes up a third of our sales, demand continues to be soft due largely to stagnant housing markets and higher prices for appliances, driven by tariffs and rising raw material costs.

Against this uneven backdrop, we are on track to achieve our key financial and operational priorities for '26. These include revenue growth, improved profitability in the markets we serve today, advancement of our GaN technology road map, and progress in our strategic pivot to the data center, EV, and energy markets to drive faster growth in the years ahead.

I'm excited about our progress in each of these areas, and I'll provide an update on each, starting with our core business, where growth is being led by penetration of GaN across our end markets. We are on track for a record year of GaN revenue and had another strong quarter of design wins as customers look to our GaN products to improve efficiency and reliability. That includes our first design wins with TOPSwitch-GaN, which we introduced earlier this year, winning three major appliance designs at top-tier OEMs. Other wins include a recently announced smart home product for a major US OEM and a TV design for a major Korean OEM using a GaN chipset addressing both AC-DC conversion and power factor correction.

Now I'll turn to data center, where our high-voltage GaN continues to open doors at customers designing 800-volt systems. At last month's OCP Summit, we met with hyperscalers, xPU suppliers, power supply and server ODMs, and suppliers of energy infrastructure. Our discussions reinforced the demand for technologies that maximize power density and efficiency in 800-volt data centers. Engagements span applications from grid to rack, ranging from solid-state transformers and renewable energy to high-power sockets in the rack and power sidecar, as well as a diverse range of aux power sockets throughout the data center.

For high-power sockets, customers continue to show strong interest in our 1,250-volt GaN to optimize power density, both by collapsing stacked power stages to reduce board area and by taking advantage of GaN's high switching frequency to shrink magnetic components. We are developing a range of high-voltage GaN products for the main power path, reflecting customer interest in a variety of integration levels and package configurations. These products are expected to sample to customers in '27 and then roll out in the '28-'29 timeframe.

Auxiliary power represents our most immediate opportunity to penetrate 800-volt architectures. We are seeing strong growth this year in aux power for existing server architectures, including five new design wins in Q3. And we have four design-ins for 800-volt sockets scheduled to begin production in 2027. Our opportunity pipeline has more than tripled since the start of the year and now includes a wide variety of 800-volt designs, including aux supplies for compute trays, IT racks and sidecars, as well as network switches, fan power modules, and solid-state circuit breakers.

In conjunction with the OCP Summit, we announced a collaboration with Ideal Power on a solution for solid-state circuit breakers. The collaboration addresses the need for innovative approaches to circuit protection in high-power, high-voltage data center environments where mechanical circuit breakers are too slow to protect the valuable rack equipment. Existing electronic breakers introduce losses into the system, both from the protection device itself and the surrounding control electronics.

So as rack power levels rise to hundreds of kilowatts and higher, any drain on system efficiency is a significant problem. An added challenge is that electronic breakers must be powered, and in 800-volt systems, the power source is usually the 800-volt bus itself. That means the aux supply must be capable of handling an 800-volt input.

So in the architecture we're developing with Ideal Power, our 1,700-volt InnoMux-2 handles the 800 volts with ample margin. We power the intelligence that controls the Ideal protection switch, which in turn protects the power path to the compute load. The result is an efficient, self-powered breaker that meets the needs of 800-volt data centers, and we're excited to partner with Ideal Power on this innovative solution.

Customer engagements for data center involve not just rack-level power conversion and protection, but also solutions for beyond the walls of the data center. Attach rates of battery storage systems to data centers are projected to rise rapidly in the years ahead, and we are well positioned to capitalize with our successful high-power gate drivers. One of our top high-power customers is now supplying battery storage inverters to a top US hyperscaler with plans to ramp with multiple new customers in 2027. We added to our position in battery storage in Q3 with a high-value design win at a new customer, a major US supplier of energy infrastructure.

We are also expanding our customer engagements on solid-state transformers being developed for later phases of the 800-volt transition. Our high-power gate drivers are an attractive solution for driving switching modules in silicon carbide-based SSTs, while GaN-based SSTs are an emerging application for our high-voltage GaN technology.

Finally, turning to automotive, we won 10 new designs in Q3, including an inverter emergency power supply for a top German automaker, and our pipeline has increased by more than 40% since the start of the year. We believe the outlook for the EV market is promising as higher gas prices have renewed consumer interest and the pricing delta between EVs and ICE vehicles continues to shrink.

OEMs are moving to distributed power architectures in which micro-DC-to-DC converters will power subsystems from the main battery instead of the lead-acid batteries. One of our Chinese automotive customers recently announced its intention to eliminate the 12-volt battery, and we expect other OEMs to follow suit. Meanwhile, rising battery voltages are driving interest in our higher-voltage GaN, not only for low-power sockets, but also higher-power DC-to-DC converters and onboard charging. Together, these two architectural trends have the potential to dramatically increase the number of high-voltage sockets per vehicle, driving our available dollar content from single-digit dollars to nearly $100 over the next four to five years and significantly expanding our SAM.

In closing, we're excited about the opportunities ahead of us in data center, energy infrastructure and automotive. We expect these markets to drive rapid growth in our SAM with a goal to double SAM by 2031. Our strategy for driving revenue growth in these markets is taking shape, and I'm confident in our team's ability to execute the strategy.

I'm delighted to announce a new addition to the team, Tony Stratakos, who will join us next week as our Chief Technology Officer and SVP of Engineering. Tony is a noted thought leader in power semiconductors, having co-founded Volterra, served as CTO at Maxim Integrated, and later founded a company specializing in utility-scale battery storage systems. I'm pleased to have Tony joining the team, and I look forward to introducing our executive team and providing an in-depth discussion of our strategy at an Investor Day in March 2027.

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. Our Q3 results demonstrate continued progress on revenue growth, margin expansion, and cash generation. We reduced balance sheet inventory for the third consecutive quarter and announced an increase in our quarterly dividend. These results reflect disciplined execution across the company. Channel inventory increased during the quarter, reflecting both softer demand in certain markets and higher customer buffer stock requirements, which I'll discuss in more detail.

Revenue for Q3 was $125.5 million, up 6% from a year ago and 5% sequentially. The communications and computer categories each grew more than 20% sequentially on a combination of seasonal strength and recent GaN design wins. The industrial category continues to show healthy growth with a 6% sequential increase in Q3 and 13% growth year-to-date compared to last year. That strength, led by high power, has been fairly broad-based within the industrial category.

Consumer revenue was down 7% from the prior quarter, driven mainly by seasonally lower revenue from air conditioning. As Jen noted, we have seen continued softness in appliances. That market continues to feel the effects of higher retail prices and weak housing markets, especially in the US and China.

As previewed in my introduction, channel inventory rose by 4.5 weeks during the quarter to 11.8 weeks. Three factors drove this increase. The first is softness in appliances, where we expect sell-through to take one to two quarters to improve. The second is project delays in metering, particularly in India. We are starting to see signs of improving sell-through in metering in Q4 already and expect project launches to continue ramping through 2027.

The third is channel partners building inventory to support end customers' higher buffer stock requirements. Some replenishment was expected as we entered Q3 with below-normal channel inventory of 7.3 weeks, but the increase was higher than anticipated. Both our channel partners and end customers tell us that amid broader supply chain constraints, they are holding additional buffer stock. Channel inventory, therefore, is likely to remain above our eight-week target while these conditions persist. We will continue to monitor sell-through and customer requirements closely as we manage shipments.

Turning to gross margin, non-GAAP gross margin was 55.2% for the quarter, above the high end of our outlook and up slightly from the prior quarter, benefiting from improved mix and higher manufacturing volumes.

Non-GAAP operating expenses in Q3 were $42.4 million, down $2.8 million from the prior quarter. Compared to the third quarter of last year, non-GAAP operating expenses were down more than 10%. We remain focused on disciplined expense management while protecting priority investments in GaN and our strategic growth markets. Our objective is to maintain ongoing profitability improvements while advancing the technology and customer programs that support longer-term growth.

Non-GAAP operating margin for Q3 was 21.4%, up more than 4 points from the prior quarter and more than 7 points higher than the full-year 2025 figure. This improvement reflects the operating leverage in our business model that comes with revenue growth and disciplined expense management. Non-GAAP earnings for the quarter were $0.46 per diluted share, up 24% sequentially and 28% from a year ago.

Turning to the balance sheet and cash flow, cash flow from operations was $43 million for the quarter, while CapEx was $6 million, resulting in free cash flow of $37 million. Lower inventory was a significant contributor, falling by more than $7 million during the quarter. Days on hand fell by 19 days to 246 days at quarter end. Cash and investments on the balance sheet increased by $25 million during the quarter to $288 million. Reflecting the strength of our balance sheet and confidence in our ability to grow cash flow going forward, our Board of Directors has raised our quarterly dividend to $0.22 per share beginning in Q1 2027.

I'll now review the fourth-quarter outlook. We expect revenue to be between $118 million and $126 million. At the midpoint, that would be an increase of 18% from the fourth quarter of last year and bring our full-year growth rate to 7%. Our outlook reflects continued industrial strength and contributions from recent design wins balanced against softer consumer demand, elevated channel inventory, and supply constraints, including packaging and PCBs. I expect non-GAAP gross margin for Q4 to be in the range of 55%, plus or minus half a point.

Non-GAAP operating expenses for Q4 should be in a range of $43 million, plus or minus half a million. At the midpoint, that would be a slight increase from Q3, but once again lower than a year ago. We are on track for a full-year reduction of about 4% as we continue to drive expense discipline while protecting priority investments in our strategic growth markets and advancing our technology road map. Finally, I expect non-GAAP operating margin for Q4 to be between 19% and 21%.

In summary, Q3 showed our ability to improve profitability and generate strong cash flow. We remain measured in our near-term expectations for market growth while encouraged by our design-win momentum and longer-term opportunities. Our focus is on disciplined execution, investing selectively in our strategic priorities, and translating growth into sustainable earnings and cash flow to drive shareholder value.

We look forward to sharing more about our strategy and target business model at our upcoming Investor Day on March 8, 2027, in New York. Joe will be sharing more details in the coming weeks. And now, Ben, let's begin the Q&A session.

Questions and Answers

David Williams - Needham & Company LLC - Analyst

Good afternoon, and thanks for taking my question. Maybe first, you had talked about OCP. There was -- it seemed like a lot of enthusiasm around the higher-voltage power architectures. Was there anything there that changed maybe your view? It sounds like you're getting the design wins to be better opportunities. But do you think there's anything there that pulls things forward or makes you maybe a little more optimistic about that 800-volt opportunity?

Jen Lloyd - Power Integrations, Inc. - President and CEO

Yes. Thank you, David, for the question. Yes, I mean, what we've talked about before and we continue to be really happy about in our progress on -- we continue, first of all, we're engaging across the ecosystem. We are seeing the aux designs growing in terms of our pipeline and our revenue across a broad range of power. And as I mentioned in the prepared remarks, we are now seeing design-ins specifically for 800 volts there. So we're happy about that, and we're continuing to demonstrate good performance in available sockets.

As we've also talked about, the main path architecture for us -- we're really focused on that opportunity with our 1250-volt GaN, so a little bit further out in time from the current 650-volt designs that are going on. I think what was exciting at OCP is really seeing the expansion of the partnerships beyond what's inside the data center to some of the new things that we're seeing on the racks as well as what's happening outside the data center. And so as we discussed, we're pretty excited about our high-power business's ability to address some of those opportunities. So yes, I think we're seeing a broader opportunity for ourselves.

David Williams - Needham & Company LLC - Analyst

Great. Thanks for the color there. And maybe on some of the inventory dynamics, it seems -- I think it's more of your exposure there maybe on the consumer side, but that's kind of a different story than what we've heard from a lot of your peers. Is there any other dynamics that we should be thinking about there? I mean, obviously, you pointed to multiple things that drove that, but do you still feel like the demand is there and there's no real softening in the broader demand environment? Does it feel like that is the case, or are there other things maybe that we should be thinking about driving that inventory?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

If I talk about consumer first, we are seeing softness there, and it is typically a softer quarter with air conditioning, as you're well aware, in terms of that cyclicality. So that inventory buildup in China -- and we are looking at it really region by region and by channel partner, as I've talked about in the past -- that buildup will take a couple of quarters to work through.

If I look at India and the metering specifically, that is really a delay in project starts within India, which have now started to loosen up. And we've already started to see that in Q4. So I feel very good about that higher inventory in India moving through, starting in Q4, but really into next year as those larger projects kick off and get that moving within the channel. And then the third area is one on the supply side, which is actually new.

As you can imagine, we've been having very frequent discussions with channel partners and our end customers as we saw this buildup. And certain end customers are requiring these channel partners to hold additional inventory as they are seeing other supply constraints. And so that piece is the piece that will likely take a little bit longer to work through. And it's really going to depend on when those end customers allow that buffer stock level to decrease.

Demand is continuing to be healthy. And as Jen said, we're seeing more and more wins that are going to drive continued revenue growth. And unfortunately, it turned into a blip this quarter in terms of that higher level of weeks on hand.

David Williams - Needham & Company LLC - Analyst

But it doesn't feel like it's potentially a golden screw-type scenario where you're building inventory, waiting for other critical components in the supply chain?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

I think some customers may be, but on a broader base, I think, no, we have multiple reasons for why we saw the buildup.

David Williams - Needham & Company LLC - Analyst

Thanks so much. Appreciate the help.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Yes. Thank you. Maybe following up on that last topic. So I'm just trying to understand, Nancy, is it fair to say that the 4.5 weeks is sort of equally distributed within those three reasons? And assuming that supply will remain tight for the industry as you sort of go through '27, would you expect the channel inventory to be a little bit more elevated than normal? Would your target be 10 or more like nine weeks versus eight? So any color there?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

I think it's fairly distributed. China with appliances, we saw that tick up later in the quarter. So it seemed to be moving fairly well in the first part of the quarter and then ticked up toward the end. That I would expect to move through in the next couple of quarters, as I said. I think the metering will move through in the next, call it, two to three quarters as well as those projects get underway. The one that is a little bit more challenging to predict is those that are increasing buffer stock.

So I think for Q4, the level of weeks on hand will remain higher than we have targeted. I think for next year, it is potentially a scenario where it sits at nine to 10 weeks until we see the reduction in buffer stock, but we'll have to just keep watching it and stay in connection with our end customers -- not only our channel partners, but their customers -- to really understand what -- when they start to see that buffer stock requirement reduce.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Got it. But it's fair to say that it's probably not going to go above 11.8 weeks, or at least you wouldn't let it go above that level at this point?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

We certainly will do everything we can not to have that happen, yes.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Very good. And as a follow-up for you, Jen, I do recognize your 1,250-volt GaN technology is a little further out. You also didn't mention 1,700-volt on the call. Just curious, especially given OCP and so on and so forth, what's the level of interest in both of these very unique GaN technologies that you're now sampling?

Jen Lloyd - Power Integrations, Inc. - President and CEO

Yes, so I thought I did mention 1,700 volts. Maybe I didn't, but a couple of the wins that we referenced were using the 1,700-volt technology, just to clarify that. I think the level of interest is high. I mean, what I'm really hearing again, and it's back to just the criticality of power in these systems, is that the interest is high in technologies that will improve the efficiency, the power density, the board area, which translates to power density.

The challenge with the uniqueness is the goals around sourcing, right? So right now, our 1,250 is very unique, and so we're working with our customers on it, but we will have to align and meet some of the challenges that they'll see with that as a unique technology.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Very good. So is it fair to say that the design-ins were both 1,250- and 1,700-volt? And as far as materializing the revenue, we're looking at the 2028, 2029 time frame?

Jen Lloyd - Power Integrations, Inc. - President and CEO

No, '27 for the 1700. The 1700 will be in '27 for aux, right? And then main will be out in '28, '29.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Perfect. Very good. Thank you.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Hi, guys. Thanks for the question. I guess mine is around your supply chain, your foundry partners. They're a little bit different from others -- some would consider a little bit more unconventional. And this has benefited you in the past when others have been kind of super tight, expanding lead times, et cetera. I guess, first of all, have you seen this as an opportunity? Is this something that you talk with your partners about, maybe more availability of supply or lower lead times? And secondly, do you think this has anything to do with the channel build, maybe the channel getting these parts because they are available in front of either expanding lead times or price hikes like they've seen from other partners?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

Yes, I think that is a potential. I want to see Q4 and Q1 start to improve and see things move through. But that availability certainly has benefited us historically. As Jen mentioned, in certain areas, in particular in high power, we're actually tight ourselves and are asking customers to provide longer visibility to their forecast because we're seeing some level of shortages in PCBs as well as in packaging needs. And so we're starting to experience a little bit of that as well on the high-power side.

On low power, certainly the availability is a benefit to us to be able to meet customers' needs. And we are working closely with our end customers to make sure that they understand and that we can see that visibility to make sure that that continues to be an advantage for us.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Excellent. I think you preempted my second question. You may have been referring to the silicon gate drivers. You said they were supply constrained. I guess you might have just mentioned those chokeholds, but if there's anything else to discuss there. And then also just the demand that you're seeing for this, is it substantially above, or is it really just these supply chain factors?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

We have right now more demand in our high-power business than we can supply, which is good, right? It's building that backlog. And we are doing everything we can and working with our supply chain to expedite and bring in the -- and I'll use PCBs as an example -- to try and bring in more in advance so that we can meet that demand.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Is that from an upside in demand or your demand expectation, or is it just -- are you highlighting the supply chain issues?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

No, it's an increase in the demand, which is great. And as Jen mentioned, that's one of the areas that we are hearing a lot of interest in from our customers and from new customers in terms of our capabilities, and high power is certainly a large area of focus in the industry right now.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Thank you so much.

David Williams - Needham & Company LLC - Analyst

Thanks for taking the follow-up. So, Jen, just want to ask, I know in the past you talked about your portfolio being a bit more narrow and you would like to expand that a bit. And of course, you have those initiatives internally to build that organically. But if you look at and think about inorganic opportunities, how do you rate the environment today? Are there opportunities for you, and when could we see potentially you being more acquisitive in the future, if that is where you would like to go?

Nancy Erba - Power Integrations, Inc. - Chief Financial Officer

Well, we're probably not going to pre-announce anything here on the call. That's a joke. But we are, as we have mentioned, actively evaluating different technologies and are looking at the ecosystem around us, and whether that's through partnerships or potential M&A, are looking to expand our product portfolio. Our first priority is to do that organically, and I think Jen will talk a bit about that with Tony joining. But we are absolutely looking at other ways that we can potentially use an inorganic opportunity to drive scale.

Jen Lloyd - Power Integrations, Inc. - President and CEO

Yes, and I'll just add to that, David. We are looking at what we can do organically, and I think you'll hear more as time goes on. We've talked about in automotive expanding our BOM content, and some of that will be through some new topologies. And same thing in data center, we're seeing some things adjacent to our traditional space. So stay tuned on that. Yes. Thanks for asking that.

David Williams - Needham & Company LLC - Analyst

And just maybe lastly, if I could, on the Ideal Power partnership or relationship there, can you talk to us a little bit about how that is set up? And will that be a combined technology, combined packaging, or is it a transfer of IP -- just any color around what that relationship could look like? Thank you.

Jen Lloyd - Power Integrations, Inc. - President and CEO

Sure. Yes, that's really a co-development, I would say. And what's exciting about it is that we are seeing that the two companies coming together, our technologies play really well together, like there are advantages in

combining those technologies. But it's really early days. We're co-developing, we're working on some reference platforms and demonstrating the technology to customers. We're talking to a lot of customers, but it's very early days. But we're excited about that work.

David Williams - Needham & Company LLC - Analyst

Thanks again. I appreciate the help.

Jen Lloyd - Power Integrations, Inc. - President and CEO

All right. Thank you again for joining us today. I want to thank our employees at Power Integrations around the world for their hard work, innovation, and commitment, as well as our customers and partners for their continued collaboration and support.

Thanks to global trends like AI and electrification, power is becoming a critical constraint, driving the need for step-function improvements in efficiency and power density. Our high-voltage technology and system expertise are well suited to meet these challenges, and we continue to execute on our technology and product road maps to create long-term value for our stockholders. Thank you for your continued support, and we look forward to updating you again next quarter.