

Power Integrations Second Quarter 2026 Earnings Call – August 5, 2026

Corrected Transcript

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

Thanks, Ben. Good afternoon. Thanks, everyone, for joining us. With me on the call today 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. I'm excited to share more about our strong Q2 results, progress on our strategic objectives and new wins in our growth markets. We reported Q2 revenue of \$119 million, up 10% from the prior quarter with sequential improvement in all four end market categories. Non-GAAP operating margin expanded by more than 5 percentage points to 17.1%, and we generated \$22 million in operating cash flow.

It was a strong quarter, and Nancy will cover more of the details in a few minutes. These results demonstrate our ability to deliver profitable growth in the near-term as we pivot our long-term focus toward markets like energy infrastructure, rail, data center, and automotive. These markets are characterized by rising voltage and power levels along with high uptime requirements, creating a need for high-voltage solutions which maximize efficiency, power density, reliability, and safety.

Our technology and system expertise add the greatest value in these markets, and we are orienting our investments and our organization around these long-term opportunities. Our commitment to innovation and investment in high-voltage GaN took another step forward today with the demonstration of our 2,200-volt PowiGaN technology.

This milestone extends PowiGaN into application spaces traditionally served by silicon carbide while reinforcing Power Integrations' leadership in high-voltage GaN. Unlike conventional GaN on silicon, which faces practical voltage limitations, PowiGaN continues to scale to higher voltages while preserving the efficiency and power density advantages of GaN. Another advantage of PowiGaN versus GaN on silicon is reliability.

Because PowiGaN is a platform technology, our new 2,200-volt technology uses the same proven architecture as prior voltage nodes at 750, 900, 1,250, and 1,700 volts. That means customers can expect the same reliable performance that we've demonstrated over eight years in the market.

PowiGaN offers a long-term pathway for data center customers, giving them confidence that they can incorporate GaN today without fear of being boxed in and forced to change technologies on next-gen designs. With 1,500-volt architectures already in view, customers can adopt GaN knowing that the technology road map extends well beyond current requirements. Rather than relying on complex stacked device approaches, future high-voltage systems can leverage a single technology platform that combines high reliability, high switching frequency, and exceptional power density. We're excited to demonstrate 2,200-volt GaN and share our road map for even higher voltage nodes to come.

Today, we have a broad range of ongoing customer engagements addressing 800-volt data centers. Recent discussions with hyperscalers confirm that power continues to be a major challenge for them, and we're excited about the opportunities for Power Integrations technology to be a key part of the solution.

The biggest component of our projected \$1 billion data center SAM is the main power path to the GPU, and we are working closely with customers to define and develop solutions using our unique 1,250-volt GaN, which offers a high-density alternative to stacked 650-volt designs. The second track in our data center engagements is auxiliary power, where we see an expanding range of opportunities in and around the data center rack, including switch trays, power sidecars and other high-voltage sockets.

We have a healthy roster of design-ins and a strong pipeline of ongoing design activity with our 1,700-volt products for 800-volt data centers. In June, we published two reference designs targeting NVIDIA 800-volt racks with our 1,700-volt InnoMux products. These aux supplies will sit on the compute tray in a native 800-volt system, powering components such as MCUs, gate drivers, and op-amps, delivering space savings of about 30% compared to discrete silicon carbide designs.

Higher voltages are an important trend not just in the context of data centers, but across the entire power ecosystem that will support AI infrastructure as well as electric vehicles and the modernization of power grids around the world. This evolving landscape includes renewable energy, high-voltage DC transmission, solid-state transformers, and battery storage.

We address these applications today with our high-powered gate drivers, and our GaN road map will enable us to offer an even broader range of solutions for customers over time. I'd like to say a few words specifically about battery storage systems, which are a critical part of modern power infrastructure with deployments expected to grow at a double-digit CAGR through 2035.

Battery storage makes electrical systems more resilient, flexible, and efficient by storing energy and delivering it when needed to smooth fluctuations, balance supply and demand, or provide backup power.

Energy storage is becoming a foundational element of renewable energy systems, industrial power infrastructure, and power for AI data centers. Power conversion in large-scale battery systems is typically performed by high-voltage silicon-based switching modules paired with gate drivers like our SCALE-2 driver boards. However, rising power demands are driving a shift towards higher voltage architectures and greater adoption of silicon carbide. While silicon carbide can deliver significant gains in efficiency and power density, it introduces new challenges requiring more advanced gate driver technology.

This trend plays to our strengths. Our advanced gate drivers provide the precise switching performance required for silicon carbide systems, enabling our customers to confidently deploy the next generation of energy storage infrastructure. We are currently shipping gate drivers into battery storage systems used alongside renewable energy installations, and we added an important new customer in Q2, winning a utility scale design at a top supplier of batteries for energy storage systems and EVs. We also have a number of customer engagements underway for battery storage, specifically targeting AI data centers, another element of our projected \$1 billion data center SAM in 2030.

Having touched on some of our longer-term growth opportunities, I'll now comment on the appliance and low-power industrial markets, which will continue to be the main drivers of revenue and cash flow as we pivot towards higher power markets. We are calibrating our investments to maintain strong competitive positioning in these markets even as we allocate more R&D and go-to-market resources toward our longer-term priorities. Recent product releases like TOPSwitch GaN and TinySwitch-5 are emblematic of this approach, building on existing IP, brand equity, and customer familiarity with proven architectures. TOPSwitch GaN now has a strong pipeline of designs underway as customers look to bring the efficiency and power density of GaN to appliances, power tools, and more.

TinySwitch-5 now has designs in production and should contribute meaningful revenue in the second half of '26, particularly at appliance customers where we've had a number of recent wins. Tiny 5's flexible operating frequency helped one of our top appliance customers meet a tight time-to-market schedule because they could reuse an existing transformer design. In addition, its excellent cross-regulation performance easily enabled separate outputs for the main motor, control panel, and MCU, all while meeting a stringent standby power spec. Driven largely by Tiny 5 and TOP GaN, our pipeline of appliance designs is healthy, keeping us in position to benefit when demand improves in the appliance market.

Our industrial revenue is up 16% year-to-date, driven by broad-based growth across high and low power applications, including renewable energy, home and building automation, tools, and metering. We have a strong ongoing design activity in each of these areas, supported by a healthy demand environment.

Automotive revenue, which is included in our industrial category, is on track to double this year and ramp up in the years ahead as we leverage our strong position in emergency power supplies and drive further GaN penetration in EVs. Much like data centers, EV power architectures are evolving in ways that create greater need for advanced high-voltage technology. Our GaN road map aligns with rising main battery voltages, while our highly integrated products are ideal for micro DC-to-DC converters.

These power supplies represent the next layer of automotive content for Power Integrations as EV architectures move towards distributed high-voltage power conversion and away from low-voltage batteries for powering subsystems. In Q2, we won a design at a major Tier 1 supplier for a GaN-based micro

DC-to-DC converter scheduled for production next year. This win represents another important endorsement of PowiGaN in the auto market, where other high-voltage GaN offerings have struggled to break through, but customers are increasingly impressed by the documented reliability performance of our GaN.

In closing, our Q2 results demonstrate solid progress on our near-term priorities as we continue to invest for long term growth in data center, energy infrastructure, automotive, and high-power industrial. We're excited about the direction the market is heading. The way the world generates, distributes, stores, and uses electrical energy is changing in ways that will demand more advanced high-voltage semiconductor technology. Power Integrations is a pure-play high-voltage company with differentiated technology and a road map increasingly well aligned with the long-term needs of the market. Our team is intently focused on converting those advantages into sustainable growth and shareholder value.

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, everyone. Our Q2 results marked another quarter of execution against our financial priorities for 2026: driving revenue growth, focusing investment in our highest priority markets, expanding operating margin, and generating cash flow while reducing inventory in the channel and on our balance sheet.

Revenue was \$118.9 million in Q2, up 3% from a year-ago and 10% sequentially. Our industrial business had another strong quarter with 14% growth led by home and building automation, power tools, and broad-based industrial applications. For the first half of 2026, industrial revenue grew 16% year-over-year, following the 15% growth we reported for 2025, demonstrating sustained momentum in our largest end markets.

Consumer revenue was up 5% over the prior quarter with seasonal strength in air conditioning, offsetting continued softness in major appliances. The communications and computer categories grew sequentially by 16% and 5%, respectively, coming off seasonal lows in Q1.

Non-GAAP gross margin was 55.1% for the quarter, up 160 basis points sequentially and slightly above the high end of our outlook. This increase reflects better mix with industrial rising to 43% of sales as well as higher volume and a favorable impact from the yen-dollar exchange rate. As a reminder, there is currently about a one-year lag between fluctuations in the yen and the resulting impact on our P&L. The exchange rate was volatile through last year, causing some ripples in our gross margin as we move through 2026. In Q3, the yen flips back to being a slight headwind, followed by another modest benefit in Q4, based on what we see today.

Non-GAAP operating expenses in Q2 were \$45.2 million, down slightly from the prior quarter and below our outlook range, which had a midpoint of \$47 million. We continue to align expenses more closely with revenue through the restructuring we completed in Q1 and a broader set of efficiency and spending discipline initiatives.

At the same time, we are protecting investments in our strategic growth markets, including data center, industrial, energy, automotive, and rail. Reflecting the combined effects of revenue growth, higher gross margin, and focused investments, non-GAAP operating margin for the second-quarter was 17.1%, up 540 basis points from the prior quarter. Non-GAAP net income was \$20.9 million or \$0.37 per diluted share, up from \$0.25 in the prior quarter.

Turning to the balance sheet and cash flow. Cash flow from operations was \$22 million for the quarter, while CapEx was \$4 million, resulting in free cash flow of \$18 million. Receivables increased by \$12 million during the quarter, reflecting higher revenue, while inventory decreased by \$5 million. Days on hand fell by 27 days to 265 days at quarter end. We do expect a further reduction in inventory days in the second half. Channel inventory also declined during the quarter with weeks on hand improvement of more than 1.5 weeks to 7.3 weeks. As a reminder, we believe that channel inventory between seven and eight weeks is an appropriate target, and we're pleased to be back in that range.

I'll now review the third-quarter outlook. We expect revenue to be between \$122 million and \$130 million, a 6% sequential increase at the midpoint. We expect consumer to be lower, reflecting normal seasonality, while revenue from the communications, computer, and industrial categories should continue to grow. I expect non-GAAP gross margin to be in a range of 54% to 55%, still near the top end of our target range.

Non-GAAP operating expenses for Q3 should be in the range of \$45 million to \$46 million. At the midpoint, that would be a slight increase from Q2, but meaningfully below the prior year. On last quarter's call, we said we expected low single-digit growth in non-GAAP OpEx this year. We now believe we are on a course for a low single-digit decrease even as we continue to make the important and material investments in key long-term growth initiatives.

Finally, I expect non-GAAP operating margin for the third-quarter to be between 17% and 19% as compared to the 17.1% we reported for Q2. The first half of 2026 demonstrates the leverage we have in our business model when we deliver revenue growth and maintain discipline on expenses and capital allocation. We remain committed to these financial principles and the importance of bringing differentiated value to our customers while executing to our road map.

In closing, I want to thank our global team for their commitment to POWI, focus on our strategic priorities, and to driving shareholder value. And now Ben, we can open it up for questions.

Questions and Answers

David Williams - Needham & Company LLC - Analyst

Congratulations on the continued success here. Maybe, Jen, if we can think about -- sorry, I was really excited about the 2,200-volt GaN that you released and talked about in the script there. I'm just wondering if you could give us some color around that of when you expect maybe that could be in the market. Obviously, you've sampled that and shown it. But when do you think that could start producing revenue?

And is it part of potential designs now that you can start talking about? Or are we still maybe a few more quarters out before you can start talking about design wins and potentials there?

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

Yes. Thank you, David, for that question. And I'm glad that you're excited about it. We're pretty excited about it also. Really, right now, we're looking at a time frame that's probably a bit further out. Right now, it's really just a technology demonstration. It's not a product -- we haven't launched any products on that platform. But we are seeing customers across data center, auto, and other markets that want to see that road map.

In the data center specifically, those products would be on the 1,500-volt road map. And that's obviously much further out in time. You're talking about several years before we would have products. So no, it's not probably the next couple of quarters. It would be the next couple of years before we see anything meaningful there.

David Williams - Needham & Company LLC - Analyst

Great. And then maybe just on the channel inventory, you talked about that coming down and being healthy. Just kind of curious what you're seeing in terms of order velocity and maybe speak to if you feel like you're shifting to consumption now? And what are the opportunities for maybe some channel fill now that we're back kind of in this normal range, but it feels like the demand is starting to pick up some.

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

I think you characterized it well. If I look at where we started the year with channel inventory above nine, we knew that there had been some buildup last year that seems to have worked its way through. So I'm pleased to see that level coming down both in Q1 and then again in Q2. I do think we're at much healthier levels right now. The devil is always in the detail, and we measure every channel partner and what they're holding, what they have by product type, as you can imagine, and where it is regionally. And right now, we feel good about the health of the inventory that's in the channel. And I do agree, I think in that seven to eight, around eight weeks, is a healthy level.

The first half demand has been compelling, right? We're pleased with how the first half has played out. We expect to continue to see growth in Q3, as I referenced. We expect that to be in three of the categories that we sell into in terms of growth rates, as I mentioned in my prepared remarks. And so I would expect some level of sell-in in Q3, but still aiming to stay in that healthy range around 8 weeks.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

Yes. So for my first question, Jen, obviously, there's some new products, design and so on and so forth. Could you just maybe update us on the timeline, especially for data center and automotive? I think in the past, you've talked about maybe data center becoming more material in '28. I'm wondering if that's still on track. And then on the auto side, you sound a little bit more positive on this call over the revenues doubling this year. Just curious what the expectation would be for '27.

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

Okay, sure. Let me take the automotive first. So yes, we're -- we feel we're on track on automotive. So we've been talking about a \$100 million target out in the '29, '30 time frame, and we still believe that that's

attainable. Of course, how that progresses is dependent on the market conditions in EV, but we're excited about this next step of BOM expansion from where we entered that market with the emergency power supply designs and now we're seeing some of our first micro DC-to-DC converter designs. That's a significant step in the BOM expansion. So we think that's going well.

On the data center side, really, there's kind of two tracks to our engagement there. We've been very heavily focused on winning aux power designs. Those are applications that we can address with products that we have today. So that looks like could be revenue in 2028. Then on maybe the second track of our engagement on data center is around the main power path to the GPU. And that is a further out in time that will -- that and actually some of the aux will be dependent on when the 800-volt systems deploy. But the engagement on the main power path is still earlier. It's still an opportunity that requires work with our customers since it is a unique technology that we're rolling out, and there are a number of things to be worked through. So that's still evolving, but that's a little further out in time.

Tore Svanberg - Stifel Nicolaus & Company Inc - Analyst

That's great color. And as my follow-up, I do recognize the 2,200-volt GaN is obviously even further out. But I'm just curious what that means for potential 800-volt designs because I would think that as customers look for 800 volt, they obviously want to see the path to 1,500 volt. And with your 2,200-volt technology now available, I'm just curious if that potentially puts you in a better position as you try and garner some design wins for 800 volt.

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

I think so, Tore. What we just keep hearing is the criticality of power across -- it's not just data center, it's across lots of industries. It's super compelling. And our customers are saying and citing that power is really one of their key risk areas to solve. And having that road map and being -- having a track record of innovation in high voltage, we really think this is helping us and is giving us the opportunity to really partner with our customers with our road map to solve those challenges, not just today at 800 volts, but as things evolve.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Congrats on the quarter. My first question is around supply. You guys kind of have a nontraditional supply chain. And at least during the last cycle, you were able to serve some upside when others were not. I guess, can you talk about your capacity, ability to serve upside, and whether you think your competitors are running into supply issues, opening the door for you to pick up share?

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

I think we have had feedback recently actually from certain of our customers, one hyperscaler in particular that we met with this week, that actually framed a very similar comment that you just put forward. We do have a unique supply chain structure. We do think that our ability to supply and our ability to still keep our lead times very competitive does provide us an opportunity, particularly as we look across the markets that we serve.

But as we think about the relationships that are needed now in technology road map, which Jen just commented on, but also an ability to supply and supply consistently, we do think that does present us an opportunity where we may be able to take advantage of that as we go forward. I want to also acknowledge, right, the ops team here at POWI because they work really hard to make that happen.

It's not something that's easy, but we have structured processes and relationships with our partners that allow us to maintain that competitiveness and have products available for our customers when we need them. But I appreciate you raising it because it literally just came up with -- from one of the customers this week, and we do think that it provides us an opportunity, and we're going to do our best to execute to that.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Great. Additionally, one of your competitors is talking about using GaN. I think it's even 600-volt GaN in a back-to-back FET architecture to address SSTs. And just considering you have this new announcement on 2.2 kilovolts, might you or have you explored anything for SSTs? Additionally, what kind of new applications do you think 2.2 kilovolts opens up for you?

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

So on the SSTs, to date, our discussions have been mostly around the products we have today, which are gate driver products that can potentially address those applications for our customers. However, there is discussion about our GaN in those applications. In terms of new applications for 2,200 volt, where we're hearing our customers really is around data center and automotive applications, where we think that that technology could be useful. But I mean, we learn new things every day, and it would not surprise me at all if new applications open up. So I don't have any detailed comments today, but you'll hear more as that market evolves.

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

I think one thing that we are seeing, though, is the footprint that we already have today in terms of work with energy customers and our gate driver business today is giving us access to early looks at what may be designed, right? I mean, there's still so much work to be done in this space. But as Jen mentioned, power being so critical both to inside the data center, which people have been focusing on, but really now how do you get power to the data center.

And that infrastructure opportunity is one that we think we're very well positioned to serve because we already have that footprint and are already selling into those markets. So we are actively engaged there and look forward to being able to share more as we learn more in terms of the direction that our customers are going.

Operator

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

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

All right. Thank you again for joining us today and for your continued interest in Power Integrations. I want to thank our employees around the world for their hard work, innovation, and commitment to execution as well as our customers, partners, and suppliers for their continued collaboration and support. We are encouraged by the progress we've made this year, reflected in stronger financial performance, continued momentum across our industrial business, and meaningful advances in our strategic growth initiatives.

As power systems evolve toward higher voltages, greater efficiency, and increased reliability, we believe our technology, expertise, and products position us well for the opportunities ahead. We remain focused on disciplined execution, technological leadership, and creating long term value for our shareholders. We thank you for your support and look forward to updating you again next quarter.

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

Thanks, Jen, and thanks, everyone, for listening. There will be a replay of this call available shortly on our website, our investor website, which is investors.power.com. Thanks again for listening, and good afternoon.