

Power Integrations Fourth Quarter 2025 Earnings Call – February 5, 2026
Corrected Transcript

Joe Shiffler - Power Integrations Inc - Director - Investor Relations and Corporate Communications

Thank you, Chelsea. Good afternoon, everyone. Thanks for joining us. With me on the call are Jennifer Lloyd; our CEO, and Nancy Erba, who joined Power Integrations last month as CFO. 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 and in our most recent Form 10-k filed with the SEC on February 7, 2025. During this call we will refer to financial measures not calculated according to GAAP. Non-GAAP measures in the fourth quarter exclude stock-based compensation expenses, amortization of acquisition related intangible assets, expenses associated with an employment litigation matter, and the tax effects of these items. A reconciliation of non-GAAP measures to our GAAP results is included in today's press release. 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.

Jennifer Lloyd - Power Integrations Inc - Chief Executive Officer

Thanks, Joe, and good afternoon, everybody.

Overall, our fourth quarter results were largely in line with our expectations with a revenue of \$103 million and non-GAAP earnings of \$0.23 per share. I'm also pleased to report that we returned to growth in 2025. Full year revenue was up 6%. Non-GAAP EPS grew by 8%, and we generated \$112 million of cash flow from operations, up \$30 million from the prior year.

Last quarter I shared that OPEX control would be an immediate priority, and we demonstrated that in Q4, reducing non-GAAP expenses by more than \$2 million from the prior quarter. We are announcing today that we carried out a restructuring earlier this week, reducing our global workforce by about 7%. While such decisions are difficult, we took this action to better align expenses with revenue. This creates flexibility to invest in products, people, and markets that will create long-term value for shareholders.

Looking at recent business trends, booking improved significantly in Q4 after slowing in the prior quarter, partly as a result of excess appliance inventory shipped into the US last year ahead of the tariffs. Encouragingly, the largest US appliance OEM reported last week that this preloaded inventory has largely dissipated. Part of the recent improvement in orders relates to appliances, and we expect sequential growth in our consumer category in Q1. However, our broader view is that appliance demand continues to face headwinds, including low existing home sales in the US. The effective tariffs on appliance prices and ongoing softness in China housing. The industrial market has been a key driver of the recent uptick in bookings, and we expect industrial to be our fastest growing market again in 2026, starting with a strong Q1.

Overall, we generated 10% growth in design win value in 2025 with particular strength in GaN and high-power products. We are also encouraged by customers' response to our new TinySwitch-5 ICs, with a healthy pipeline of designs scheduled to begin production in the second half of 2026. Additionally, our multi-output GaN-based InnoMux-2 integrated circuits are seeing strong design traction in the TV market.

These and other upcoming products will enable us to sustain and grow our core IC business even as we shift our investment priorities towards markets like AI data center, industrial, and automotive where our expertise is helping customers solve their toughest power challenges. Advanced high-voltage technologies are essential to the emerging power ecosystem. Our solutions span from the generation of renewable

energy to long-distance DC transmission to battery storage, to smart meters at the edge of the grid, to the efficient use of power in homes, factories, data centers, and vehicles.

While it will take time to fully align our R&D and go to market efforts with our long-term strategic plan, recent results demonstrate that we have already built momentum in some of the markets we are targeting for long-term growth. For example, revenue outside of cellphone applications has averaged 12% growth over the past two years, and in 2025, industrial revenue grew 15%. Driven by the big picture themes that are integral to our growth strategy, electrification, renewable energy, and grid modernization.

These themes are especially relevant in our high-power industrial business which had a record year with double-digit growth driven by electric rail where we have a very strong position in the India locomotive market and by high-voltage DC transmission projects delivering renewable energy to the grid. We expect recent design wins to drive continued growth for high power in 2026 and beyond. Some Q4 customer wins included a leading European maker of inverters for utility scale solar and battery storage. Commuter trains and streetcars in Europe and Africa, and multiple wins for power grid projects in India.

In our industrial IC business, we saw double-digit growth in metering last year due to our leading position in deployment of smart meters in markets such as India and Japan. Our ICs enable compact, reliable designs with low standby consumption, making them ideal for meters, and we're now seeing customers migrate to our 900- and 1250-volt GaN products for additional protection against the voltage swings common on India's grid. Another area of growth in our industrial business last year was power tools as lawn equipment and other tools continue to migrate to battery power.

In automotive, we continue to make steady progress penetrating the EV market with our auto-qualified InnoSwitch™ products for inverter emergency power supplies. We secured a design win in Q4 at a top Chinese tier one supplying a leading EV maker and began production just this week on a design at the number one European EV carmaker.

Another highlight of our 2025 results was the continued success of our PowiGaN™ technology in the power supply market. Revenue from PowiGaN products grew more than 40% for the year. Notable GaN design wins in Q4 included a dual USB-C charging port. Charging ports integrated with AC outlets require both high power density and low standby consumption, making them an ideal application for our highly integrated GaN solutions.

Also in Q4, we began production on a new server auxiliary design for a US cloud services provider using a GaN-based InnoSwitch. As we discussed on last quarter's call, auxiliary power is a key aspect of our engagements with data center customers, including with Nvidia on their next-gen 800-volt DC architecture, where our 1,700 volt GaN solutions offer a compelling alternative to silicon carbide.

As I've met with shareholders during my 1st 6 months as CEO, I've been clear about the fact that we need to reorient our organization to ensure that our strong technology foundation translates to success in the market. That means a more customer focused approach to product development and faster time to market. Changes like these take time, but we are moving with urgency. We are streamlining our R&D pipeline to focus on delivering our highest priority and highest value products in time to intersect the market. We've also moved quickly to strengthen the team to better leverage our unique capabilities in high voltage and deliver the right products for the evolving power ecosystem.

New members of our team include Chris Jacobs, who joined us last month from Micron Technology to head up marketing and product strategy. We welcomed Julie Currie, our new head of people and culture transformation, and Nancy Erba as CFO who you'll hear from in a moment. We have also bolstered our strong innovation capabilities with targeted hires in key technical roles. I'm very excited about the depth and breadth of experience in our team, and I'm confident in our ability to serve customers and create long-term sustainable value for shareholders.

With that, I'll turn the call over to Nancy, who joined us one month ago as CFO. Nancy is a seasoned public company CFO, having served in the role for six years at Infinera until its sale to Nokia last year, and previously as CFO at Immersion. Those CFO roles followed a long run of senior leadership positions at Seagate Technology, so I'm thrilled to have her as part of our executive leadership team. Nancy?

Nancy Erba - Power Integrations Inc - CFO

Thanks, Jen, and good afternoon, everyone. I'm excited to be part of the POWI team and I look forward to meeting many of our investors and analysts in the weeks and months ahead. I'll share a few observations from my 1st month in the CFO role and a brief after a brief review of the results and the outlook. Today I'll focus primarily on the non-GAAP numbers which are reconciled to GAAP in the tables included with our press release and 8-K.

Power integrations had a solid year in 2025, returning to top and bottom-line growth and generating healthy cash flow. Revenue fluctuated more than usual over the course of the year as tariffs disrupted the appliance market, and we experienced some lumpiness in our industrial business. But ultimately, revenue increased by 6% for the year with three of the four end market categories increasing year over year and industrial positioned for continued strong growth in 2026.

Fourth quarter revenue was \$103 million down 13% from the prior quarter. On a sell-through basis, sales were down only 3% from the prior quarter as sell-through exceeded sell in, and we worked down channel inventory built in Q3. Channel inventory for Q4 fell by about half a week to 9.4 weeks.

Looking at the end market categories, industrial revenue was down 23% sequentially after two very strong quarters reflecting recent seasonality and variability in customer order patterns. Overall though, our industrial business had an outstanding year with growth of 15%.

Consumer revenue, which is predominantly from appliances, was down 13% sequentially in Q4, largely reflecting the overhang of appliance inventories shipped in the US in the first half of 2025 ahead of the tariffs. That effect can be seen clearly in the first half over second half comparison with consumer revenue falling by more than 15% half over half. In spite of that volatility, consumer revenue was slightly up for the full year.

Revenue from the computer category was down 5% in Q4 on lower tablet revenue offset by higher sales for notebooks. For the year computer revenue was down 2%. Communications revenue grew 15% sequentially in Q4 on new design ramps and cell phone and the India 5G broadband business, and for the year grew 6%.

In summary, revenue mix for the quarter was 37% industrial, 34% consumer, 15% communications, and 14% computer. This mix was less favorable than the assumptions behind the Q4 gross margin guidance, and as a result, non-GAAP gross margins came in slightly below the range set at 53.3%. However, non-GAAP operating expenses of \$45 million came in well below the outlook of \$47 million primarily driven by lower hiring and discretionary expense control efforts. Curtailing OPEX growth to a level well below revenue growth is a priority for the company and a key area of focus for me this year. Our Q4 results and the restructuring we carried out this week are important steps in that direction.

Moving to tax, we received credits in Q4 related to new solar generating capacity we've recently turned on at our San Jose headquarters. These credits plus a higher-than-expected R&D tax credit brought our full year non-GAAP tax rate down to 2%, resulting in a negative 3% tax rate for the fourth quarter.

Non-GAAP net income for the quarter was \$12.7 million or \$0.23 per diluted share, including a benefit of about \$0.02 from the lower-than-expected tax rate.

I will mention one item in the GAAP results. Stock-based compensation expense was negative in the fourth quarter, reflecting a reduction in the expected vesting of short and long-term performance-based shares. As a result, GAAP EPS for the quarter was \$0.24, a penny higher than the non-GAAP number.

Turning to the balance sheet and cash flow...cash flow from operations was \$26 million for the quarter and CapEx was \$7 million. Inventories on the balance sheet increased by \$2 million during the quarter while days of inventory on hand rose to \$313 reflecting the lower revenue number. Importantly, wafer inventory came down in 2025, and we expect that along with revenue growth to continue to contribute to a reduction in overall inventory days over the course of 2026.

Moving now to the full year results, revenue was up 6% for the year. Non-GAAP gross margin was 55.1%, up 70 basis points from the prior year, mainly driven by higher industrial revenues as a percentage of our mix with some additional benefit from higher back-end manufacturing volume. Non-GAAP OPEX increased by 5% and non-GAAP operating margin increased by 100 basis points to 13.9%. Non-GAAP EPS of \$1.25 was up 8% for the year.

The strength of POWI's balance sheet and cash flow generation continues to be compelling. In 2025, cash flow from operations was \$112 million while CapEx was \$24 million resulting in free cash flow of \$87 million, demonstrating that our business continues to generate healthy cash flow. For the year, we returned \$145 million to shareholders via buybacks and dividends or 167% of our free cash flow.

Next, I'll review the first-quarter outlook. We expect first-quarter revenue to be between \$104 and \$109 million. I expect non-GAAP gross margin to be between 53% and 54%. Mix should be favorable relative to Q4 with higher industrial and consumer revenue as a percentage of the total.

Non-GAAP operating expenses for Q1 should be in a range of \$46 million plus or minus half a million. The increase from Q1 reflects the resumption of FICA payments offset by a partial quarter of impact of the restructuring, which reduced our global workforce by about 7%. Our GAAP results for the first quarter will include a restructuring charge of between 3.5 and \$4 million.

Our effective tax rate steps up in 2026 as the benefit of solar credits is non-recurring and, more significantly, the tax rate on foreign earnings increases as specified in the 2017 tax reform. I expect our effective tax rate for the quarter and for the year to be in the range of 7% to 8%.

Before we open it up for Q&A, I'll offer a few thoughts on my 1st month in the CFO role. I'm excited to join PE's management team under Jenn's leadership at this very pivotal time for the company. Our technology is creating increasing value for our customers and giving us access to expanding new markets like automotive and AI data center. I see a clear opportunity to translate that into profitable growth for our shareholders. As CFO, my initial focus will be on establishing rigorous operating cadences, strengthening processes, and leveraging automation to drive operational efficiency and scalability.

And of course, I also want to recognize the Power integrations finance team. They are a highly capable, disciplined team and an important asset to the organization. For our analysts and shareholders on the phone, I look forward to meeting you in the coming weeks and months.

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

QUESTIONS AND ANSWERS

Ross Seymore – Deutsche Bank

Thanks for letting me ask a couple of questions. I guess first, welcome to Nancy. And then I guess my first question, one near term and then the follow-up would be a longer-term one. In the near-term side of things, you talked, Jen, about the bookings increasing significantly in the fourth quarter.

It's good to see you're returning to growth in your first quarter guide, but it still seems like the channel inventory is a little bit high. So can you just talk about the plans that you have to burn that and what it might mean to the subsegment guides for the first quarter and maybe expectations of the growth rate for the year?

Nancy Erba - Power Integrations Inc - CFO

Yeah, hi Ross, this is Nancy. I'll start and then, Jen can jump in. Certainly we're glad to see the inventory come down a bit as you mentioned. If we look forward to the full year of '26, part of the action plan that I laid out in terms of my areas of focus are really on these, I'll say rigorous cadences we'll be looking at inventory both in terms of weeks in the channel but absolute value of inventory on the balance sheet and driving those plans through the year we do expect based on our plan today to see that come down. I'll say a healthier level, but certainly, it's dependent upon, the Q1 and the first half bookings, the mix of those bookings and the timing and how much of the turns that we have to get each quarter, but net it is absolutely, on our list of key objectives to be able to bring that overall level of inventory and the weeks on hand back to a more healthy level in the channel.

Ross Seymore – Deutsche Bank

Okay, I guess my follow-up question more on a longer-term basis. You talked about the high-power business, auto, data center, etc. And you mentioned GaN going up 40%. As you look over the next couple of years, when do you think those items are going to be meaningful enough in size to start moving the aggregate revenues and accelerating the growth?

Jennifer Lloyd - Power Integrations Inc - Chief Executive Officer

Yeah, so you mentioned for high-power, auto, data center and GaN. I think GaN, I'll just start backwards, GaN is pretty meaningful today, and you know we mentioned in the call growing 40% year over year this year, so it's becoming meaningful. High-power is a very meaningful driver of our industrial business, I think we're already there and we see continued acceleration of that next year and that'll support the industrial growth.

Automotive and data center are going to take more time I think we're doing well there in automotive we're seeing the wins we mentioned some earlier we are seeing that you know the market is a bit slower than you know we would have liked and we're also seeing some design ramps push out but you know we still see that we continue to win designs and so that's going to take a little bit of time to materialize.

And then data center I think we're making good progress. I think we're engaging well across multiple customers and opportunities, we're developing our products and demonstrating capabilities to those customers and moving with urgency there but as we have talked about that's probably our longest-term play so that you know we won't see that be material for a couple of years.

David Williams – The Benchmark Company

Hey, good afternoon. Thanks for taking my questions and let me also offer my welcome to Nancy.

I guess maybe first if you guys kind of look across the landscape and just kind of how things are developing here, it feels like overall the demand environment is generally improving, just kind of depending on where you're positioned, but I guess if you look across all of your segments, how do you think, and where do you think we are in the cycle in terms of are we at the bottom coming off the top or at the bottom turning here, or are we still some time away just kind of giving the inventory digestion that needs to happen.

Jennifer Lloyd - Power Integrations Inc - Chief Executive Officer

Yeah, maybe I'll start and then Nancy can add. I mean, I think. I do think the one area that is still you know we're being conservative on is you know in the consumer business with appliances and you know we have seen improvement there but you know we're also well aware there's still you know quite a few headwinds there so you know the way we were looking at it is that will you know if things like the housing market takes off you know interest rates come down that would be upside for us. Nancy, you want to add anything to that?

Nancy Erba – Power Integrations Inc - CFO

Yeah, I think, we're really glad to have returned to growth in 2025. I think for 2026, we're planning on, I'll say similar growth levels year-over-year, as Jen said though, it is very early in the year, we're going to have to see how, demand plays out in the first half. It has been lumpy in certain areas today. But net, we're going to be planning for similar growth however I will say we're going to be cautious in our investments until we see those bookings really taking form and the step up that we expect to see.

Making sure that they are happening before we dive in deeper to certain investment areas so you're going to see us be cautious on that as we're in '26 but we are optimistic you know over as Jen said over the next couple of years the markets that we're entering have great opportunity for us to you know step up that growth rate in the outer years.

David Williams – The Benchmark Company

Okay, great, thanks for that. And then maybe just some color around your reorganization, and I know, when you talk about reprioritizing R&D efforts and accelerating that time to market, but if we kind of look at it feels like maybe we're starting to see some of that already take hold. Can you talk maybe about how we should see this unfold over the next couple of quarters and maybe the next year in terms of, how this repositioning is helping? Thank you.

Jennifer Lloyd - Power Integrations Inc - CEO

Yeah, a couple of things, I mean some of it is the restructuring, and it's giving us the flexibility to strengthen, so as you know that'll continue to play out and every...everything there is good in terms of the R&D, we also are bringing some real focus into the team and acting with greater urgency and more agility and that's a key part of how we're expecting to accelerate growth going forward so I think a good example of that actually is in the data center space where we're working with Nvidia, we've got much more openness in terms of our road maps and our product development discussions and we're pivoting our focus areas so that we can address the opportunities and really intersect. Where the customer needs are so there's the restructuring piece of it but there's also the driving the change in terms of how we behave and bring a customer centric view into the product development organization. Thanks so much.

Tore Svanberg - Stifel

Yes, thank you and let me add my welcome to Nancy as well. I guess my first question is on automotive. It sounds like it's finally starting to contribute to some revenues. I think maybe there's been some talks about maybe this being sort of like low tens of millions of revenues, at least in the beginning. I mean, is that a number we can expect this year or given what you said before about potential, some potential delays, that's more of a 2027 target at this point?

Jennifer Lloyd - Power Integrations Inc - CEO

Yeah, I think the latter...

Nancy Erba – Power Integrations Inc. - CFO

Yeah, I think it has the potential, right, but you know again we need to see these wins start transpiring into the volumes that are needed, but you know there have been some delays in the ED market, we are pleased with the traction and the customer, wins that we've seen, we're going to do everything we can to drive to that level, but you know whether it's 12 months or 18 months, I think, that's the window we're thinking about.

Tore Svanberg - Stifel

Very good. And on the OPEX, I think you mentioned the sort of only a half of a quarter benefit from the restructuring, so you gave guidance obviously for the March quarter. So, should we expect OPEX to come down by a few more million dollars, in the June quarter then?

Nancy Erba – Power Integrations Inc. - CFO

I would think for the year, right, I'll frame it this way, right, if you look at, revenue growth historically and OpEx growth they've been fairly close. We're trying to cut that, to get to about half, so, for the year I would think in the call it \$3 million to \$5 million dollar range. And again it was 7% of employees that were impacted and we are continuing though to do work around the full business model and understanding right where we have leverage that perhaps could be better utilized to focus on the areas that we are expanding into that we think long-term drive the greatest shareholder value. So in addition to the actions that we took, we are going to be assessing really all of the programs, all of the new programs as Jen mentioned with Chris coming on board and really making sure that those prioritizations are exactly where we need to be and that, the return on those investments are measured and we hold ourselves accountable to them as we are, running the operation.

The other piece of that in terms of customer-centricity and really focusing on the customer's needs is the mix in terms of our go to market investments versus R&D and G&A and making sure that we are properly supporting our customers as we're out trying to move into these new opportunities for the company.

Tore Svanberg - Stifel

Good, and just my last question, maybe related to what you just discussed there. So I mean the consumer segment, seems to have been soft for a while now. I mean, I'm glad to see the bookings coming back, maybe the inventory being adjusted, but, as you continue to do this restructuring and thinking about your end market, are there certain areas within consumer that, you would perhaps consider exiting, or do you still see that as an important growth segment for the company?

Jennifer Lloyd - Power Integrations Inc - CEO

I don't think there's anywhere right now that we've identified in terms of exiting. It will still be a growth segment for us and as we consider the whole portfolio of our investments, we are looking at what's the appropriate investment based on the growth rate that we're that we expect for that so over time, we'll be pivoting towards the highest growth segments. For now it's an important business for us to make sure that we that we support.

Christopher Rolland – Susquehanna Financial Group

Hi and thanks for the question. I guess for me first of all if you could maybe talk a little bit more about the cloud provider win for aux power, and then AI more generally, can you talk about broadening this portfolio into other applications beyond aux power and what you think that might mean for the top-line overall? Thank you.

Jennifer Lloyd - Power Integrations Inc - CEO

Okay, so the first question was about the aux power when, cloud provider, so as I think we've talked about before, is, it's a socket for us that we see across a number of applications, and that when you know it's an important validation of the latest products that we have. Aux power in general isn't the largest opportunity typically as you, talk about data center type systems, so, over time, we hope to use that as an entry point with customers but, expect to expand our footprint so it's kind of a, it's a good entry socket across a number of applications.

Christopher Rolland - Susquehanna Financial Group - Analyst

Yeah, I guess I was just asking, what sockets might be next, like and if you want to hit that and then I do have a follow-up.

Jennifer Lloyd - Power Integrations Inc - CEO

What sockets might be next for Aux Power?

Christopher Rolland - Susquehanna Financial Group - Analyst

What so, no. What sockets and applications for your products, again and or silicon within the data center 800 volt at Nvidia or, XPU infrastructure.

Jennifer Lloyd - Power Integrations Inc - CEO

Yeah, got it, yeah, no, I mean aux power is just a small part of the system, so you know we are looking to intersect the main power supplies where you know you'd expect a much more significant, SAM there, and that's in development now.

Christopher Rolland - Susquehanna Financial Group - Analyst

Okay, understood, and then maybe industrial, I think you talked about '26, that being your fastest area of growth, perhaps talk about the underpinnings there. You know why, what do you think is going to drive that, market leading growth for you guys, does it have anything to do with a clean channel and or channel fill, any other details, underpinning that optimism would be great.

Jennifer Lloyd - Power Integrations Inc - Chief Executive Officer

Yeah I mean I think really a lot of the optimism comes from our high power business that grew really well this year. I think our go to market efforts there are strong and we are expecting that to be a significant driver for next year so. We talked about that earlier. We've seen really good growth in our metering business. We're still expecting that to drive growth next year. So really all of the industrial growth areas this year we're expecting that that to continue and we have the DWIN growth to support that.

Joe Shiffler - Power Integrations Inc - Director - Investor Relations and Corporate Communications

All right, thank you, Chelsea. Thanks everyone for listening. I know it's a busy afternoon of earnings, so we appreciate you tuning in. There will be a replay of this call available on our website, that's investors.power.com. Thank you again and good afternoon.