NASDAQ:INVE Q1 2026 Earnings Call Transcript

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Tom | Operator:

Good afternoon. Welcome to Identiv's presentation of its first quarter 2026 earnings call. My name is Tom and I will be your operator this afternoon. Joining us for today's presentation are the company's CEO, Kirsten Newquist, and CFO, Ed Kernbauer. Following management's remarks, we will open the call for questions. Before we begin, Please note that during this call, management may be making references to non-GAAP financial measures or guidance, including non-GAAP adjusted EBITDA, non-GAAP gross profit, non-GAAP gross margin, and non-GAAP operating expenses. In addition, during the call, management will be making forward-looking statements. Any statement that refers to expectations, projections, or other characteristics of future events, including future financial results, future business and market conditions and opportunities, strategic partnerships and collaborations, and any related benefits and attributes, and future plans, strategies, opportunities, and goals, is a forward-looking statement. Actual results may differ materially from those expressed in these forward-looking statements. For more information, please refer to the risk factors discussed in documents filed from time to time with the SEC, including the company's 2025 Annual Report on Form 10-K, as amended, and the first quarter 2026 Form 10-Q, which will be filed with the SEC in the future. IDENTIF assumes no obligation to update these forward-looking statements. I will now turn the call over to CEO Kirsten Newquist for her comments. Ms. Newquist, please proceed.

Kirsten Newquist | CEO:

Thank you, operator, and thank you all for joining us for our first quarter 2026 earnings conference call. I will begin with a few highlights from the first quarter as we continue to build strong momentum executing against our perform, accelerate, and transform strategy. As discussed on our last call, we achieved a significant milestone by signing a long-term agreement with IFCO to exclusively supply BLE smart labels for use on their pool of more than 400 million reusable plastic containers. Since then, we have been focused on development activities and expect to begin production for over half a million pilot units shortly, with mass production anticipated to start in the fourth quarter of this year. We also made meaningful progress at our Thailand manufacturing facility, which has now fully transitioned from Singapore. This facility is increasing our ability to serve our customers more efficiently and at lower costs, while continuing to deliver high levels of product quality and service, reflected in the positive feedback we are receiving from customers. In addition, we are continuing to grow our opportunity pipeline, particularly for IDBlue, our portfolio of BLE smart labels for asset tracking and logistics applications. We are seeing strong and growing interest across multiple industries, including global logistics, pharmaceuticals, and food distributors. And we remain on track to make these products commercially available later in the year. Turning to our first quarter financial performance, I'm pleased to report that first quarter sales of 7.4 million exceeded our guidance, with other key financial metrics coming in as expected. As anticipated, We saw a slight decline in gross margin versus the fourth quarter, given the product mix and some additional scale-up costs for a new customer. We expect to see some margin improvement throughout the year as our operations become more efficient, but we will also have some offsetting costs in the second half due to the scale-up of IFCO. We are starting to see some impact from the current macroeconomic environment, primarily in our consumer-facing applications, where demand for higher-end products has softened. At the same time, certain suppliers have implemented price increases. We are assessing and will be taking pricing actions to offset these costs while continuing to focus on delivering value to our customers and maintaining our margin profile. Our CFO, Ed Kernbauer, will now provide a detailed review of our first quarter financial performance, and afterwards, I'll share more on our progress across our strategic initiatives.

Ed Kernbauer | CFO:

Thanks, Kirsten. In the first quarter of 2026, we delivered $7.4 million in revenue, which exceeded our previously announced guidance range, compared to $5.3 million in Q1 2025. The year-over-year increase was as expected and included strong demand from current customers, the conversion of new customers, and the benefit of one of our larger customers ordering their full year 2026 sales volume in Q1. First quarter gap and non-gap gross margins were 17.4% and 23.8% respectively, compared to gap and non-gap gross margins of 2.5% and 10.8% respectively in Q1 2025. The primary factor driving the improvement in gross margin was the transition of production to our state-of-the-art Thailand production facility. This included cost savings and efficiencies achieved in procurement and production, improved facility utilization, and the elimination of manufacturing production costs from our Singapore operation in Q1 of 2025. In addition, the gross margin improvement year-over-year also reflected the benefit from charges recorded in the first quarter of 2025 to cost of revenue related to the write-down of obsolete inventory at our Singapore facility of $0.3 million, and a warranty claim from one of our customers of $0.2 million. Gap and non-gap operating expenses for the first quarter of 2026, including research and development, sales and marketing, general and administrative expenses, and restructuring and severance, totaled $5.5 million and $4.4 million, respectively, as compared to $5.6 million and $4.5 million, respectively, in Q1 2025. The year-over-year decrease in GAAP operating expenses was driven primarily by lower restructuring and severance expenses, partially offset by higher strategic review-related costs incurred in Q1 of 2026 compared to the first quarter of 2025. Non-GAAP operating expenses in Q1 2026 were comparable to the prior year period, demonstrating our continued disciplined allocation of operating expenses as we execute on our PAT strategic initiatives. First quarter gap net loss was $3.4 million, or $0.15 per basic and diluted share, compared to gap net loss of $4.8 million, or $0.21 per basic and diluted share, in the first quarter of 2025. This improvement in net loss was primarily due to the increase in sales volume in Q1 2026, lower restructuring and severance costs, and, as mentioned, the impact of charges to cost of revenue of approximately $0.5 million in the first quarter of 2025. Non-gap adjusted EBITDA loss for Q1 2026 was $2.7 million compared to $3.9 million in the first quarter of 2025. As mentioned, the decreased loss was the result of production efficiencies achieved at our Thailand facility, charges to cost of revenue in Q1 of 2025, and the disciplined spending of operating expenses as we continue to execute it on our PAT strategic initiatives. In the appendix of today's presentation, we have provided a full reconciliation of GAAP to non-GAAP financial information, which is also included in our earnings release. Moving now to the balance sheet. We exited Q1, 2026 with $124.8 million in cash, cash equivalents, and restricted cash. Our balance sheet position remains strong with working capital exiting Q1 of $129.6 million. In our 10Q filing, we will be providing a full reconciliation of year-to-date cash flows. For completeness, we've included the full balance sheet in the appendix of today's earnings release. Finally, I would like to discuss our financial outlook for the second quarter of 2026. We anticipate sales of $5.4 to $6.0 million. As discussed, Q1 sales demonstrated strong growth, driven in part by a significant full-year 2026 customer order placed early to secure product availability. As such, our Q2 sales guidance reflects the pull forward of this volume into Q1. Additionally, the projection incorporates some uncertainty related to softening demand trends among certain consumer-facing customers. As mentioned on our March call, we do expect to see margin improvement throughout 2026 as our operations become more efficient. We do, however, expect some variability in gross margins as we continue scaling production for the IFCO program, which reflects the typical dynamics of ramping production for large programs. Again, it is important to note that the underlying cost structure improvements from our manufacturing transition remain in place. As these programs mature and volume scale, we believe they support attractive long-term margin performance. From a cash usage perspective, we continue to expect to utilize $14 to $16 million in 2026, excluding strategic review-related costs. This includes the cash required to support ongoing operations, plus $3.5 million of capital expenditures primarily related to the IFCO production, a $1 million increase in working capital to support growth, and $1.5 million to purchase chips, locking in favorable pricing required to fulfill customer orders, which extend past 2026. This concludes the financial discussion. I'll now pass the call back to Kirsten.

Kirsten Newquist | CEO:

Thanks, Ed. I am pleased with the progress that we have made, while recognizing there is still more work ahead to achieve our financial goals. Our efforts are delivering results as we continue to execute our Perform, Accelerate, and Transform strategy. Our PERFORM pillar is focused on strengthening and scaling our core business while driving operational efficiency and margin expansion to create long-term value for both shareholders and customers. As discussed earlier, we have officially completed the two-year manufacturing transition to our Thailand facility. This has enabled us to deliver our products to customers faster, decrease costs, improve efficiency, and expand margins. Since we last spoke, our Thailand facility has continued to make strong progress in training our employees to operate safely and efficiently while maintaining our high quality production controls. At the beginning of the year, we implemented new CRM and MRP enterprise systems to better integrate sales, demand planning, and operations. We have also introduced quarterly sales and operations planning processes to align our commercial, operations, and supply chain teams around a unified demand plan and discipline production execution. Simply put, these new systems enhance our ability to respond to customer needs with greater speed and accuracy while providing improved visibility across our operations and inventory. We remain focused on developing and maintaining strong customer relationships and are encouraged by our progress. In the first quarter, two of our three top customers extended their supply agreements, reflecting confidence in our performance and service. Overall, customers are responding positively to our continued improvements and commitment to operational excellence. On the marketing front, we are committed to ensuring that our customers, prospects, and channel partners fully understand the breadth of our product portfolio and capabilities and how we help solve critical business challenges. In support of this, we launched our new corporate website designed to provide clear, accessible product information, application insights, case studies, and an enhanced investor relations section. Since our launch in January, we have continued to see increased website visits and click-through rates and a growing number of requests for information via our website contact form. We also continue to strengthen Identiv's thought leadership position through 20 published articles discussing important topics for our customers and the industry, including how NFC is restoring trust for consumers, clinical trials are getting smarter, and supply chains and AI. We participated in an AI PIA connected packaging webinar that featured eight subject matter experts and focused on smart packaging trends driving demand for IoT technologies. Shifting now to our Accelerate pillar, our focus here is on driving growth in high-value segments through innovation, particularly in BLE technology and advanced multi-component manufacturing. We are excited about our long-term strategic partnership with IFCO, where our team is making good progress across both product and manufacturing developments. We are in the final stages of production site renovations to support the custom manufacturing equipment required for this next generation BLE label. As noted earlier, we expect to begin production of more than half a million pilot units shortly with mass production planned for the fourth quarter. Development of our proprietary BLE smart label portfolio, IDBlue, is also well underway. We are seeing significant early interest in these solutions, which target logistics, cold chain, and asset tracking applications. We remain on track to commercialize this portfolio later this year. We also successfully completed the BLE ambientchat.ai demonstration highlighted on our last call. This showcased the potential of physical AI demonstrating how connected products can bridge the physical and digital worlds to deliver real-time, intelligent insights. Our innovation efforts continue to gain external recognition. During the quarter, we were honored with the IoT Connected Retail Application of the Year Award in the 10th Annual IoT Breakthrough Awards Program, underscoring the strength of our technology and market positioning. More broadly, we are seeing tangible results from our innovation pipeline. In April, we launched our expanded ID Safe inlay portfolio, which enables product authentication, tamper detection, and end-to-end traceability across a range of industries, including pharmaceuticals, healthcare, retail, food and beverage, electronics, and smart packaging. We are seeing growing interest for solutions that can verify product authenticity, confirm package integrity, and provide visibility across the product lifecycle. And our ID Safe product family addresses all of these challenges. Please see the press release about our ID Safe in-mate portfolio issued on April 20th on our website. Turning now to our third pillar, Transform. This pillar is focused on expanding the business through strategic M&A to accelerate our path to EBITDA break-even while broadening our product portfolio and enhancing our technical capabilities. Our board continues to work closely with our financial advisor, Raymond James, and

our legal advisors on strategic alternatives. Before I turn the call over for Q&A, I'd like to update everyone on the new reporting metrics we introduced in 2025 and the results we achieved in quarter one. First, our new sales pipeline and conversion metric tracks opportunities with new customers or those we have not served in over two years. For 2026, our goal is to build a pipeline of 125 opportunities and convert at least 35 into sales by year end. We exited last year with 101 opportunities, and as of the end of first quarter, our pipeline has grown to 124 opportunities, with eight opportunities converted to sales during quarter one. Next, our new product development metric tracks the number of our active NPD initiatives. These projects involve the development of entirely new RFID or BLE tags, inlays, or labels. At the end of first quarter, we had 18 active NPD projects underway, with three successfully completed during the quarter, all within high value segments, including cold chain and consumable authentication. Our NPD completion metric tracks the number of projects delivered within the period. For 2026, we are targeting seven completed projects by year end. With three projects already completed in the first quarter, we are well on the track to meet this objective. Overall, we are making progress against our key metrics, supported by continued positive momentum across the business. I look forward to updating you on our continued execution throughout the year. Our mission remains clear, to provide digital identities for billions of physical objects, enabling real-time intelligence for the world's most demanding industries. Thank you to all of our employees customers, partners, and shareholders for your continued supportive identity. With that, I'd like to open the call to answer your questions. Operator, please open the question queue.

Tom | Operator:

Thank you. The floor is now open for questions. If you wish to join the queue to ask a question at this time, please press star 1 on your telephone keypad. We do ask if listening on speakerphone this afternoon that you pick up your handset while asking your question to provide optimal sound quality. Once again, that'll be star one on your keypad at this time if you wish to join queue to ask a question. Please hold a moment while we poll for questions. And the first question today is coming from Anthony Stoss from Craig Hallam. Anthony, your line is live. Please go ahead.

Anthony Stoss | Analyst, Craig-Hallam:

Thanks. Good afternoon, Kirsten and Ed. Three questions, actually. The first two for you, Kirsten. What percentage of the opportunities are healthcare related or maybe any detail you can give us on the other industries? I think you've given that in the past. And also for you, Kirsten, with Ithco and you're really getting set up to ramp big time in Q4, do you have the resources necessary to be able to handle any kind of new requests from new customers coming online late in the year?

Kirsten Newquist | CEO:

Yeah, well, thank you. Good, good question. So I'll start with the health care one. So we have our two different pipelines that we're, we're monitoring. So one is our NPD pipeline. So our new product development pipeline in that pipeline, we have roughly a third of the projects in the pipeline are health care related. As we move over and look at the new opportunity pipeline, which is a combination of some new product development, but more opportunities for standard product or product that has just some minor customization. And I'd say that's a little bit lower in terms of the healthcare percentage. That's probably more about 20% healthcare. So, in general, we're kind of overall, I'd say when we look broadly at our opportunities, probably about a quarter of them between the NPD pipeline and the sales opportunity pipeline. are related to health care.

Anthony Stoss | Analyst, Craig-Hallam:

Oh, and then your second question.

Kirsten Newquist | CEO:

Oh, sorry. Go ahead.

Anthony Stoss | Analyst, Craig-Hallam:

I was going to say the resources. Do you have enough resources to handle new customers when you're wrapping IFCO?

Kirsten Newquist | CEO:

Yeah. So obviously, IFCO, it is a massive program. And at the moment, it is taking a fair amount of our engineering resources as we're finalizing the design and finalizing the manufacturing process. But as that work, you know, as we go through the next couple of quarters, you know, and we get to finalize the product specs and the product design, engineering will open up and have a little bit more ability to take on more projects. And really then the effort as we get into the fourth quarter is more on the manufacturing side. So obviously we'll be hiring in particular operators to man the production equipment. But outside of hiring new operators to man the production equipment, we actually have all the resources in-house at this point from an engineering perspective.

Anthony Stoss | Analyst, Craig-Hallam:

Gotcha. And if I could ask a question on gross margins, where do you see gross margins are arranged for Q2? and maybe what you expect Q3, Q4.

Ed Kernbauer | CFO:

Yes, thank you. As far as, well, we don't give guidance out through more than a quarter out, but what I can say is that, you know, we had a good quarter sales-wise. We did have the benefit of that pull forward from, you know, that customer who ordered their full-year supply in the first quarter. But from a margin perspective, I would expect margins to continue to improve on our core business, our core customers, with all the benefits that we're receiving from the transition of Thailand and other things. So I would expect margins to continue to improve. At the same time, we are scaling for the IFCO project, so I would expect, we definitely will expect some offset to those benefits as we move into the next quarter and the rest of the year as well.

Tom | Operator:

Okay, thank you. Thank you. Your next question is coming from Craig Ellis from B Reilly. Craig, your line is live. Please go ahead.

Craig Ellis | Analyst, B. Riley:

Yeah, Kirsten, Ed, thanks for taking the questions. I wanted to start with just a clarification. We knew that there would be a benefit in the first quarter as we refract material that would be used through the year, but it seemed either that or something else was a little bit greater than at least what I was expecting. Can you look back at the first quarter and help us with what it was that drove revenues a little bit better than I think some of us were expecting.

Kirsten Newquist | CEO:

Yeah, yeah, no. So we were pleased with the sales in first quarter. So as we had previously mentioned and given some guidance last quarter, we did get the benefit of one of our larger customers purchasing their full year in the first quarter. But we also just saw overall strong demand at the beginning of the year. So we had several of our customers come in with slightly higher than had been forecast, and we're happy to see that. But at the same time, we are seeing a little bit of softness now with some of the current global economic situations going on, a little bit of where things started off with some nice, good orders coming in in the first quarter. We're seeing a little bit, especially with some of our consumer-facing customers, a little bit of a slowdown potentially in the second half.

Craig Ellis | Analyst, B. Riley:

And on that point, Kirsten, because that was going to be my second question, is there a regional dynamic to that, or is it in any particular part of the consumer-facing businesses that you have? Just help us understand how broadly that's being observed within the consumer-facing businesses.

Kirsten Newquist | CEO:

Yeah, so we've seen some softening forecasting from several of our customers who are specifically consumer-facing and specifically in higher-end appliances or devices, so higher-end products. So I think it's a little bit around consumer confidence. I think some of these customers of ours, the OEMs, just making sure they're managing their inventory levels and being cautious as we're in this world with you know, perhaps higher inflation than we would like, and some of the uncertainty with the geopolitical situation, et cetera, and I think some of the concern around consumer confidence. And I would say, you know, kind of these consumer applications that we've seen a little bit of softness, I'd say that's roughly 25 to 30 percent, 25 percent of our overall customer base.

Craig Ellis | Analyst, B. Riley:

That's really helpful, and I I don't think any of us are totally surprised with that because it does seem to be an artifact of what happens in an uncertain macro. My last question before I get back in the queue, thanks for giving us some of the new metrics. I wanted to understand them a little bit better. I'll start with target 2026 conversion opportunities. So we've converted eight. We have an ambition for 35. Help us understand the visibility you have in getting from 8 to 35. And if you could provide any color on how we should think about the revenue implications of that potential success, it would be helpful. Thanks, Kirsten.

Kirsten Newquist | CEO:

Yeah, no, thank you for the question. So we have the total number in the opportunity pipeline are roughly 124 opportunities. And so our goal, and obviously as we convert them, they come off. Sometimes we win them, sometimes we lose them. So that number does fluctuate quite a bit. But our ultimate goal is to convert 35 new, and these are brand new customers, the ones that we haven't sold to before. Or if we sold to them before, it's been over two years. And so we're looking to convert 35 of those by the end of the year. So that's our target for the full year. And those opportunities in our sales pipeline, they really do vary in terms of average size. If it's a standard product that we keep on inventory, it can be as small as five or $10,000. But it also can represent a custom product of a new customer who is looking to scale in a global way. And those opportunities can be worth you know, 500,000, a million dollars worth of product, you know, within the first 12 months of sale. So it really does vary. And I, you know, so even an average, an average order price doesn't give you a lot of information, but really does vary from small to very big. And so ultimately, you know, we're looking, we're looking to, you know, convert sales, you know, 10% to 15% of our overall sales value should be coming from some of these new conversions. And obviously, this also doesn't include IPCO. That would be a separate category altogether.

Craig Ellis | Analyst, B. Riley:

Sure. Regarding the bigger ones, do you feel like you have line of sight on anything that could convert in the large size?

Kirsten Newquist | CEO:

So, we certainly are working on larger sized ones. I'd say the majority of the larger sized ones are more on the BLE side. And some of the ones on the BLE side also do need us to get to the commercialization of the ID Blue, which is the portfolio of BLE smart labels that we're working on that we'll be commercializing on later this year. So we definitely are working them. We're in conversation. We're in sampling mode. But until those go through the whole development proof of concept, we don't have a definitive answer on exactly what the timing will be or what the initial first quarter to volume will be.

Anthony Stoss | Analyst, Craig-Hallam:

Got it. Thanks for all the help.

Kirsten Newquist | CEO:

Thank you.

Tom | Operator:

Thank you. Your next question is coming from Jason Schmidt from Lake Street. Jason, your line is live. Please go ahead.

Jason Schmidt | Analyst, Lake Street:

Hey, guys. Thanks for taking my questions. I just want to follow up on the commentary surrounding kind of macro concerns, understanding maybe demand forecasts are a little softer than anticipated. But are you seeing any cancellations within your pipeline?

Kirsten Newquist | CEO:

We're not seeing cancellations. I'd say what we're seeing is, as you just mentioned, you know, softening forecasts or, you know, interest in perhaps pushing some volume, some orders out. So that's more what we are seeing as opposed to just outright cancellations.

Jason Schmidt | Analyst, Lake Street:

Gotcha. And then just as a follow-up, understanding with the ramp of IFCO, there could be some incremental expenses, but how should we think at a high level of OPEX trending this year?

Ed Kernbauer | CFO:

Yeah, I'll take that question. I would expect OPEX would, it's relatively consistent with what it had been last year. And we have, with the cost structure that we have in place, we don't expect to see any significant increases in OPEX in the next quarter or for the rest of the year.

Kirsten Newquist | CEO:

Yeah, pretty much flat.

Anthony Stoss | Analyst, Craig-Hallam:

Okay, perfect. Thanks a lot, guys. Thank you.

Tom | Operator:

And as a reminder, if anyone wishes to join the queue at this time, you may press star 1 on your telephone keypad. Once again, it'll be star 1 if you wish to join the queue to ask a question. And it appears there are no further questions in queue at this time. I'll now like to pass the floor back to management for any closing remarks.

Kirsten Newquist | CEO:

Well, I wanted to thank everyone for joining. We appreciate you spending the time with us this evening and we're looking forward to another good quarter and quarter two. So thank you for joining us.

Tom | Operator:

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