

# NASDAQ:PDFS Q2 2025 Earnings Call Transcript

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## Operator | Conference Call Host:

Good day everyone and welcome to the PDF Solutions Inc. conference call to discuss its financial results for the second quarter conference call ending Monday, June 30, 2025. At this time all participants are in listen-only mode. After the speaker's presentation there will be a question and answer session. To ask a question during the session you will need to press star 1-1 on your telephone. As a reminder this conference is being recorded. If you have not yet received a copy of the corresponding press release it has been posted to PDF's website at .pdf.com. Some of the statements that will be made in the course of this conference are forward looking, including statements regarding PDF's future financial results and performance, growth rates, and demand for its solutions. PDF's actual results could differ materially. You should refer to the section entitled risk factors on pages 16 through 30 of PDF's annual report on form 10k for the fiscal year ended December 31, 2024 and similar disclosures in subsequent SEC filings. The forward looking statements and risks stated in this conference call are based on information available to PDF today. PDF assumes no obligation to update them. Now I'd like to introduce John Cabarian, PDF's President and Chief Executive Officer, and Adnan Raza, PDF's Chief Financial Officer. Mr. Cabarian, please go ahead.

## John Cabarian | President & Chief Executive Officer:

Thank you for joining us on today's call. If you've not already seen our earnings press release and management report for the second quarter, please go to the investor section of our website where each has been posted. We achieve record revenue in the quarter and establish groundwork for continued growth. Given our innovative products, which align well with the trends of 3D processing and advanced nodes, complex packaging and test flows, and increased use of AI to streamline operations, we anticipate revenue growth of 21 to 23 percent for the year reaffirming our guidance. Significant bookings in the quarter were primarily for enterprise-wide solutions, including SecureWise, Sapiens, and Accentio, and for characterization infrastructure. Sapiens and Accentio bookings in Q2 were driven primarily by Fabulous and IDM as analytics is increasingly becoming important to them as they have a growing need to like manufacturing operations to ERP. Characterization bookings in the quarter were tied to customers deploying CV infrastructure to develop and ramp new nodes with particular strength for the solution in Asia. As is typical, Symmetrix bookings in the quarter were primarily due to equipment vendors utilizing more runtime licenses, particularly our more advanced tool control and communications modules. With respect to DFI, we have previously talked about shipping at least four E-PROBE tools with two contributing to revenue this year. So far this year, we have installed and qualified the tool machines we shipped in Q1 as subscription upgrades with incremental revenue. Overall, demo, install, and engineering activities with customers are at a high level, and we anticipate meeting our goals for DFI this year with shipping another two tools contributing to additional revenue. Our first full quarter with SecureWise showed strong bookings benefiting from PDF's position in the semi-contra industry. While SecureWise is deployed at all at Fab's, in fact nearly all 300 million of Fab's in the world, primary customers historically have been the equipment OEMs so they can provide support to their Fab customers. However, as the Fab owners themselves have more distributed operations, they wish to get the benefit of remote access to tools and data. Thus we felt that SecureWise would enable our Fab customers and eventually our Fabless customers to have secure remote operations. We refer to this as the foundation layer of the supply chain orchestration element of the PDF platform. Sapience Manufacturing Hub and Dex are other elements we put in the supply chain orchestration category. As our customers deploy analytics and AI, they increasingly need to connect to other enterprise applications such as SAP and across organizational boundaries to the tools processing their chips. Our supply chain orchestration products enable this. Last quarter we validated this perspective as a large IDM entered into a contract to deploy SecureWise

across the majority of their tools at their internal Fab's test and assembly facilities. This is intended to enable both internal usage as well as allow equipment vendors the ability to remotely access their tools to improve support for the IDM. The benefit to this customer's higher productivity of their engineering effort and operations while having superior auditing and accounting of all activities on the tools. Moreover, they can get better support from their equipment vendors. For the equipment vendors, they can be more responsive when issues occur and by purchasing additional capabilities from PDF, they can provide additional services. We are pleased that in such a short time, customers have validated SecureWise as a network for the IC manufacturing ecosystem to facilitate collaboration and AI in manufacturing. At the Intel Foundry Direct Connect event, we were able to highlight collaboration and how PDF has moved from a capability used internally at customers to an industry-wide platform that enables new ways to work. I was invited to share the stage with Intel's CEO and talk about their strategy for Foundry. My comments were about collaboration to achieve great yields and operational metrics. Over the years, we have delivered multiple modules of Accentio and characterization vehicles to customers. With the DexNodes, we started to connect the modules we delivered to Fabus and IDMs out to their OSAT suppliers to improve test. Now with SecureWise and Sapience, we are able to connect enterprises together, linking equipment vendors to the fabs where the tools are installed or Fabus to the fabs and OSATs that manufacture for them. We believe this is crucial to achieve greater yields, in part because to deploy AI, you need automated connectivity between the data, tools and enterprise software systems. We believe PDF is very well positioned to deliver this to our customers as they partner with their suppliers and customers. Recently, we also announced that PDF's user conference and analyst day will be held this December. You will see our customers and PDF folks talk about the PDF platform and the impact it's going to have on their performance. Through 2024, we have consistently grown revenue, gross margins and EPS every year. With a 20% CAGA for revenue, while expanding gross margins from 63% to 74%, and EPS from a loss of 2 cents to a profit of 84 cents. In our conference, we will describe how we plan to build on this performance. We look forward to seeing many of you there. I want to thank all of the PDF customers, employees and contractors for their effort during the second quarter. Now we'll turn the call over to Adnan, who will review the finances and provide his perspective on our results. Adnan.

### **Adnan Raza | Chief Financial Officer:**

Thank you, John. Good afternoon, everyone, and good to speak with you all again today. We are pleased to review the financial results of the second quarter and to bring you up to date on the progress of the business. Please note that all of the financial results to discuss in today's call will be on a non-GAAP basis and a reconciliation to GAAP financials is provided in the materials on our website. For Q2, our total revenues were a record 51.7 million, up 24% on a -over-year basis and up 8% versus the prior quarter. For the first half of this year, our revenues also grew 20% on a -over-year basis versus the comparable first half of last year. We achieved our long-term target of revenue growth of 20% for the six-month -to-date period and exceeded it for this quarter. Our analytics revenue were also a record 48.8 million, up 28% from the same quarter of last year. We benefited this quarter from a characterization deal, first full quarter of SecureWise revenues, a new SecureWise deal signed during the quarter, another meaningful booking for Sapiens Manufacturing Hub and contributions from Accentia Renewals. We see additional opportunities to leverage cross-selling across the elements of our PDF platform and to expand the strategic relevance of PDF with our customers. During the second quarter, revenue contribution from integrated yield ramp came in at 2.9 million compared to 3.5 million of the same quarter of last year, driven primarily by the reduction in fixed fee as we completed the engagement and are now in the gain share period. Given the bookings momentum this quarter, we again grew our backlog and ended the quarter with 233 million of backlog. It is worth mentioning that we do not include potential future Symmetrix runtime licenses or gain share revenues in our future amounts. Based on what we can see in our deal pipeline, we see an opportunity to strongly grow bookings momentum and therefore our backlog for the second half of this year. We reported gross margins of 76% for Q2, higher than the 75% long-term gross margin target we shared during our analyst day. On a -to-date basis, our gross margin is now 76%, again higher than our target 75% long-term gross margin. On the operating expense side, our expenses for the quarter were up, however they grew at a lower rate than our revenue growth rates,

primarily driven by personnel-related expenses. The controlled growth in spend allowed us to expand our operating margin to 19%, higher than both last quarter as well as the same quarter of year ago. For the six-month period, our operating margin of 18% are up meaningfully versus 14% of the same period a year ago. We continue to believe we are on the right path to 20% operating margin, which is our target. For EPS, we reported a profit of 19 cents for the quarter, which for the six-month period also grew 18% on a -over-year basis compared to the first half of last year. We ended the quarter with cash and cash equivalents of \$40.4 million compared to \$54.1 million of the prior quarter. We consumed operating cash flow for the quarter, however we generated positive operating cash flow for the -to-date period of six months. For the quarter itself, we used \$8.5 million in CAPEX spend primarily for EPROM machine bills as a result of increased customer demand. As we look to the rest of the year and based on the bookings momentum in our deal pipeline discussed earlier, we reaffirm our prior guidance of revenue growth in the range of 21% to 23% for full year 2025 compared to the prior full year 2024. With the first half of the year completed at 20% revenue growth rate, we expect the second half of the year to grow higher than 20% versus a strong comparable period of last year. With that, let me turn the call over to the operator for Q&A. Operator.

### **Operator | Conference Call Host:**

Thank you, Mr. Araza. Ladies and gentlemen, if you have a question at this time, please press star 1-1 on your telephone. If you're using a speakerphone, please lift the handset before asking a question. One moment for our first question. Our first question comes from the line of Blair Abernethy from Rosenblatt Securities.

### **Blair Abernethy | Analyst, Rosenblatt Securities:**

Good afternoon, gentlemen.

### **Operator | Conference Call Host:**

Hi, Blair.

### **Blair Abernethy | Analyst, Rosenblatt Securities:**

Hello. Hi. Good job in the quarter. I guess a couple things for me. Just first off, it's good to see some traction with Sapiens. Maybe you can give us a little more color on that. Sounds like you had a win in the quarter. Is that a new customer? And has this come through your relationship with SAP? Just trying to understand how that product is doing.

### **John Cabarian | President & Chief Executive Officer:**

Yeah, it is an existing customer. I think we have 350 customers in the chip industry at this point, so almost everybody is an existing customer at some level, except for maybe newer entrants in China. The first couple of Sapiens contracts we signed were with factory operations, foundries or factory operations sides of IDMs. This was on the product side of an IDM, so product codes also have to manage the supply chain. As they effectively add more and more advanced packaging, more complex manufacturing flows, they've got as much need for visibility and connecting the supply chain to their ERP systems. As I said, to get better productivity, more agility, and ultimately apply AI and ML, you really need to have that automation. As we've done pilots on AI and ML, a lot of things that customers bump into, it's like, wait a minute, I need to know where my material is going if I want to go and affect a downstream test based on upstream data, for example. This is first product code type customer. We're very excited about that. We think there are more, and we think there will

be a synergy ultimately, although not with this initial contract, with the SecureWise network and the Dex network out to the supply chain itself. As it's deployed, it's really looking at static data. We think over time it's going to be able to more dynamically in the field. Lastly, you asked a question about the SAP connection. Many of these relationships have got SAP involved in it. This one did as well come through initial SAP discussions.

**Blair Abernethy | Analyst, Rosenblatt Securities:**

Okay, great. Then just over to the SecureWise acquisition. Sounds like that has gone well with an additional win. Can you just update us as to where you are in terms of integration of the business, but also the products?

**John Cabarian | President & Chief Executive Officer:**

Yeah, that's a great question, Blair. On the business, we've been moving over systems, as you know, as a carve out. We have an expectation to get that completed in September. We're well along our way on that. Some of the new employees you see out of this month, this quarter, were people that were contractors prior to March 30th or whatever, that are now employees from the SecureWise folks that we brought that were not originally in the SecureWise part of Telet, but in the Telet part of Telet that was now brought over us as employees. We're moving well along the way on the integration. We've been cross-training the sales teams. That's been ongoing. We've already started doing things like installing SecureWise on Dex nodes at OSATs and doing internal testing on integration of SecureWise and Dex and having the teams meet on what we can do associated with that. If you really think about it, what SecureWise gives you is a broader set of functions once you're at the factory. Dex gives you the function to be able run an AIML model or a rule and stream test data off. It's a richer set of functions. Dex has more compute at the node than SecureWise typically does. Then the pipe from the factory back to the consumer of the data. With SecureWise, it's completely off the internet and a completely double encrypted channel. It's, I think, the most unique capability out there in the industry. Dex really was using primarily the cloud infrastructure to do that transmission. So now we're able to offer customers an upgraded or more secure way of communicating or getting their data to and from their OSATs. Already a couple of fabulous customers have reached out to us to understand what that means. I think in this environment, you could never be too secure.

**Blair Abernethy | Analyst, Rosenblatt Securities:**

Yeah, yeah, excellent. One last one for me and I'll see the line here. Just adding on the CAPEX. Just looking back, your CAPEX spending a year ago was sort of running four and a half, five, five a quarter. Stepped up in Q1 and again this quarter sort of eight and a half million. What should we be expecting for CAPEX spend on a run rate basis?

**Adnan Raza | Chief Financial Officer:**

Yeah, good question. So look, just like John said, we are pleased with the opportunities we're seeing. You've seen in John's comments even sounding stronger about the opportunities that lie ahead of us. And the candidates for that reason, we stepped up on the CAPEX where we see an opportunity to engage on the EPRC side with the multiple customers. From this point on, we feel we can manage the CAPEX to either these levels or just a bit below. But we'll do our best. Obviously, it's going to be balanced by as new opportunities come up that we see, then we'll decide to make the appropriate spend. But the first half of the year is probably a good proxy of a high number proxy for the second half of the year. So at this level or slightly below is what we would expect for the second half of CAPEX.

**Blair Abernethy | Analyst, Rosenblatt Securities:**

Okay, great. Thank you.

**Operator | Conference Call Host:**

Thank you. Ladies and gentlemen, if you have a question at this time, please press star 11 on your telephone. If you're using a speakerphone, please lift the handset before asking a question. One moment for our next question. Our next question comes from the line of Gil Luria from DA Davidson and Company.

**Gil Luria | Analyst, DA Davidson & Company:**

Hi, this is Clark right on for Gil Luria. I wanted to quickly just ask on maybe some of the China exposure and the recent developments that we've seen just in terms of this potential disruption in this space. We'd love to kind of understand how you guys are positioned to maybe capitalize on this disruption or so the risk that potentially imposes on growth going forward.

**John Cabarian | President & Chief Executive Officer:**

Sure. Thanks, Gil. That's a good question. China is an important part of the market has been will be China is building out its own infrastructure. We've been in China since 2006 and we anticipate staying there. That said, we are very careful about bifurcating. In fact, starting in about 2017, bifurcated a lot of our China operations from the rest of the operations in the company. The pandemic accelerated that because we no longer could fly people around. And we run China pretty autonomously. We see continued investment in fabs. Our business tends to lag the capital equipment folks because they buy equipment that they realize they need test vehicles and systems to be able to ramp up notes. And so you kind of see that in our numbers right now. And a sizable fraction of our revenue is really just coming out of China is really just royalties, gainshare from past notes, you know, from past deployments that will continue. Even if China were to be for some reason, the US and China were to shut completely shut off, we would see a revenue stream out of there for many, many years to come just off royalty payments, gainshare payments off past deployments. So that relatively insulates us from short term shocks between the two countries. We think we've done a very good job at separating the way we operate the two organizations, our customers in the West, really want us to not use our employees from China and our Chinese customers don't want us to use Western employees as well. So runs relatively independently these days. And I think given our long history there, we're able to do that pretty effectively. We do believe China will be a meaningful producer, particularly on the trailing edge notes for years to come. So it's an important market for us to participate in.

**Gil Luria | Analyst, DA Davidson & Company:**

Thanks for that added clarity. Appreciate it.

**Operator | Conference Call Host:**

Thank you. One moment for our next question. Our next question comes from the line of Christian Schwab from Craig Hallam Capital. Hey, great. Thanks for

### **Christian Schwab | Analyst, Craig Hallam Capital:**

taking my question. You know, we've been talking about Intel for a little while and it sounds like you know, you're mentioning a little bit more in the prepared comments. Can you just give us a rough idea of where we stand with that customer? And, and, you know, either on a revenue basis or what inning we're in and how fast that potentially could ramp or how big it could be over say a multi-year timeframe?

### **John Cabarian | President & Chief Executive Officer:**

Yeah, of course, you know, Christian, we're always very careful about being respectful of customers confidentiality. And part of the reason why you saw it on this conference call, and us to directly call out Intel and not in the past is because they had us up on stage on their event. So at that point, it's like, you know, they, they moved first. So, you know, the problem is over on, you know, we mentioned it today. They are important customer to us that we think they're important company in the industry overall. And they have been a significant customer for us. And we expect them to be a significant, potentially more significant customer going forward, as you probably noticed from the remarks on stage there, but their CEO, you know, the technology that PDF provides is increasingly becomes important as they open up their manufacturing to others, and even the way they manufacture their own products. So we do expect an improving outlook on our business with them moving forward, as well as an improving business with other customers as well. But we do think they will be on dollar value of growing customer.

### **Christian Schwab | Analyst, Craig Hallam Capital:**

Right. And then it seems like the last few conference calls, you know, we've gotten pulled through, you know, regarding our partnership with SAP, but we have other partnerships and which we haven't, you know, heard a lot about lately. Is there something going on that's specific to, you know, customer need that that we're seeing SAP partnerships and pull ins and business because of that, versus say other people, like advantage that we've had for quite some time now?

### **John Cabarian | President & Chief Executive Officer:**

Yeah, so that's a great question. And I think, well, I try to put in my prepare box and I guess I do good job, as I could have. Yeah, I think everybody knows you've got to get your data all in one place and aligned. And that was Accentio. And you need to be able to talk to the testers. That's been our partnership with the Advent Test, and that partnership does go on. But I think what, you know, even the most savvy customers probably don't always haven't, didn't really factor when they started having data scientists and AI people start developing and deploying AI models was the need to orchestrate the enterprise. In other words, if I'm going to use AI to be more efficient in tests on some very complex package for an AI chip, I need to know where the material is being shipped, which OSAT is going to, when is it going to be on that tester? So I know when to, when the AI knows when to send a model over. Well, that information typically in your ERP or your MES system. So we're seeing customers who are really starting to get to deploy models at scale or, you know, in production, realize they need to go back and look at how do they orchestrate, you know, the connection between their engineering and their other operations. And, you know, right now we still think that that's going on relatively through conventional internet out to their OSAT suppliers. Our SecureWise acquisition is because we think they will ultimately want to do that in a very secure way. One of the features SecureWise has is when you ship a software update down to a piece of equipment, the factory gets to decide what virus scans are run on that software before it's installed. Well, I think factories are going to get more and more wise about, hey, wait a minute, my father's customer shipping down a model. And I'd like that, code basically, I'd like that code to be scanned. And SecureWise will increasingly be important. So that's why we really highlighted what we're doing with SAP and what we're doing with SecureWise because we think the early adopters as they start to deploy AI more in their operations are going to find increasingly needs. And that's

why you're seeing it in our numbers. And we think in our selling activity, and it will build on the things we've done with the tools, like what we've been doing and continue to do with AdventTest, and what we're continuing to do with Accentio in terms of AI and overall data alignment.

**Christian Schwab | Analyst, Craig Hallam Capital:**

Great. Thank you for that. No other questions. Thanks.

**Operator | Conference Call Host:**

Thank you. Ladies and gentlemen, if you have a question at this time, please press star 1-1 on your telephone. If you're using a speakerphone, please lift the handset before asking a question. One moment for our next question. Our next question comes from the line of Blair Abernethy from Rosenblatt Securities.

**Blair Abernethy | Analyst, Rosenblatt Securities:**

Hi, guys. I just wanted to follow up on just looking through your Q10 and the China revenue. So China looks like it was around a little over 12 million this quarter. It's pretty up pretty substantially from Q1 of last year. I think it was 7 million. In fact, year to date, it's almost double out of that market. I know you touched on a little bit, John, just maybe a little more color on what's changed in the China environment and sort of you feeling that's sustainable and we sort of bottomed out there.

**John Cabarian | President & Chief Executive Officer:**

Yeah, it is up this quarter. It will probably not stay at this level. In the next couple of quarters, it will come down a little bit from this. In part, it's really coming up for two reasons. One is just volume shipments on customers and two, increase deployments of CVs, characterization vehicle infrastructure and extencio. In part, what we think is going on is folks bought a lot of equipment. There's always rumors about, well, some of it's not being used yet. We see them starting to run vehicles and put things to use. I kind of touched on this a little bit. I think with Christian's question, we believe they are starting to put up capacity at meaningful volumes and that means they've got to get to decent yields on test vehicles and eventually that does mean gain share in royalties.

**Blair Abernethy | Analyst, Rosenblatt Securities:**

Okay, great. And then just back on the extencio platform, maybe you could touch on just a little bit on what the renewal landscape looks like there in the back half of the year and what, just curious about module penetration, sort of adding on modules, expanding existing implementations.

**John Cabarian | President & Chief Executive Officer:**

Yeah, so we do anticipate a number of expansions the second half of this year, some which are very significant in size and usually they involve additional modules. I would say the guide, the analytics, the AI that kind of crawls through your data and looks through trends and stuff that we have a number of pilots ongoing with customers, a lot of really positive results. We like to point out to customers, for the ones that are using our we can track how much of the data their engineers look at and usually it's a relatively low percentage of the total data that they collect and test. And so with guide analytics, you're effectively using the AI to crawl through all the data sets. I always say to executives, you fund a certain level of engineering and you want to

make sure that those engineers are looking at the most important and most significant things going on in manufacturing. So we do expect a relatively good, strong renewal situation the second half of the year, an expansion situation for Accentio, a fair amount of that including AI, primarily in guide analytics and then test operations around AI for test. Those are probably the two biggest drivers on top of the core renewals and expansions around the core renewals.

**Blair Abernethy | Analyst, Rosenblatt Securities:**

Okay, great John. And you haven't touched on ML Ops at all. How is that doing?

**John Cabarian | President & Chief Executive Officer:**

Yeah, I say AI for test, that really is the ML Ops capability. We're going to have another, I mean stay tuned to this channel, we'll have another couple of significant announcements around what we're doing on ML Ops coming out over here in the next month or so. And you know, so ML Ops is a big piece of this. Guide analytics is built from our ML Ops itself, you know, but it's an ML that we deploy. It's basically a PDF diagnostics whereas ML Ops for test is something the customer builds and deploys themselves.

**Blair Abernethy | Analyst, Rosenblatt Securities:**

Okay, okay, great. Thanks very much.

**Operator | Conference Call Host:**

Thank you. Ladies and gentlemen, if you have a question at this time, please press star 1-1 on your telephone. If you're using a speakerphone, please lift the handset before asking a question. Okay. At this time, there are no more questions. Ladies and gentlemen, this concludes the program. Thank you for joining us on today's call.