NASDAQ:PDFS Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good day, everyone, and welcome to the PDF Solutions, Inc. conference call to discuss its financial results for the first quarter conference call ending Tuesday, March 31, 2026. 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 this session, you'll need to press star 11 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 www.pdf.com. Some of the statements that will be made in the course of this conference call 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 10-K for the fiscal year ended December 31st, 2025, 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 Kabarian, PDF's President and Chief Executive Officer, and Adnan Reza, PDF's Chief Financial Officer. Mr. Kabarian, please go ahead.

John Kabarian | President and 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 first quarter, please go to the investor section of our website where each has been posted. For today's call, I will provide a summary of the past quarter, our perspective on the environment, and outlook for the remainder of the year. The first quarter was a good start to the year as we made solid progress on our objective to position PDF Solutions as the leading commercial data analytics and mission critical platform for the semiconductor industry. This was visible in the nature of the bookings, business activity, and our product development during the quarter. From a bookings perspective, Xsensio and Symmetrix products were particularly strong. Xsensio's strength was primarily from larger deployments, including an enterprise-wide deployment for Xsensio tests at a large IDM. Symmetrix's booking strength came in part from our larger customers placing orders for runtime licenses in anticipation of additional machine shipments in future quarters. Total revenues were up 26% compared to Q1 of the prior year. Adnan will provide revenue details in his prepared remarks. We shipped one E-Probe in the quarter and anticipate that machine to begin contributing to revenue in Q2. Our capital investments in E-Probe was meaningful in the quarter as we build additional machines to support our goal of shipping six machines this year. Selling activity was very high across all aspects of the semiconductor industry, from hyperscalers to equipment vendors. We did see significant activity in our characterization and DFI business as customers look to develop advanced processes and products. We anticipate that this activity will result in strong bookings in this category as the year progresses. Development of our new AI-enabled Accentio analytics systems that we announced at our users' conference in December 2025 remained on track in Q1, and we anticipate beta release in the third quarter. Customer interest has been very high for this capability. In the quarter, we celebrated our first anniversary with SecureWise as a part of PDF Solutions. Our SecureWise system provides secure end-to-end remote access and monitoring for manufacturing equipment enabling the equipment companies to provide better support and advanced services for the equipment installed at fabs all over the world. During the past year, we invested in R&D to improve the product and services, expanded the customer base to include fab owners, not just equipment makers, and now we're expanding the network into the OSATs and fabless. As collaboration in the chip industry moves from being driven by humans to being led by AI, we believe that remote connectivity enabled by SecureWise will increasingly be important. Customer enthusiasm for our stewardship of SecureWise has been super. Overall, it was a strong start to the year, both in terms of our traction with the customers and our product development. Now let's turn to our perspective on the environment. I believe this is my 100th quarterly conference call with investors. And as I reflect on my tenure, having the honor and opportunity to serve our stockholders, customers, and employees, I realize that this is the most interesting time that I've ever seen for the industry and PDF in particular. I don't say that lightly. And in fact, I've never said that before. Over the years, we have experienced many semiconductor cycles. Each time we are told this one is different. I have little doubt that this cycle can overshoot like all the past ones. What is different this time is how AI is changing so dramatically the way engineering is being performed everywhere. A recent business trip in Asia this past quarter highlighted that for me. What I found interesting was that in eight of the nine customer meetings, the CEO attended. and he was very interested in learning how AI is being used in R&D and manufacturing across the industry from PDS vantage point. The inference that I drew from this is that executives realize that AI is having the most profound effect on how companies operate and may result in changing the nature of the industry and hence companies. These CEOs see PDF as a leader in bringing AI to manufacturing, and they want to understand our perspective on the transformation that is happening and our vision for manufacturing, product and test engineering, and yield ramp as a result of AI. What this means for PDF is that this is the most interesting business environment we have experienced in our 25 years as a listed company. As the PDF platform transitions from a system used within a company to increasingly an AI and analytics platform used across the industry, we believe we can deliver and capture more value as we help our customers seize on the opportunities that our platform can provide them. This is resulting in deeper collaborations with our customers and ultimately can result in larger engagements with them. Given our progress in Q1, We reconfirm our total year-over-year revenue growth for this year to be consistent with our 20% long-term target. I want to thank all the PDF customers, employees, and contractors for their efforts during the quarter. Now I'll turn the call over to Adnan, who will review finances and provide his perspective on our results.

Adnan Reza | Chief Financial Officer:

Adnan? Thank you, John. Good afternoon, everyone. Good to speak with you again today, and I hope all of you and your families are well. We're pleased to review the financial results for the first quarter of 2026. As mentioned, our earnings release and a management report are posted in the investor relations section of our website. Our form 10Q was also filed with the SEC today. Please note that all of the financial results we discuss in today's call are on a non-GAAP basis, and a reconciliation to GAAP financials is provided in the materials on our website. We are pleased with the results of Q1, with multiple large bookings during the quarter. We secured a double-digit million-dollar Accenture test operations booking to help our customer manage geographically distributed operations, an Accenture renewal with a large fabless customer for better analytics, and a booking for fab control software for a large fab customer in Asia. We ended the quarter with a backlog of 246 million. up 9% versus the same quarter of last year. Total revenue for the first quarter was $60.1 million, up 26% versus the same quarter of last year. Our platform revenue was $50.9 million for the quarter, or up 36% versus the same quarter of last year. Driven by strength in our leading edge solutions, Accenture software, and one complete quarter of SecureWise revenues. Volume-based revenue for this quarter was $9.2 million or down 12% versus the same period of last year, primarily due to lower gain share. Our gross margin for the first quarter came in at 76% versus 77% last quarter, driven by small increase in cost of revenue with a smaller revenue base as expected. Our operating margin for the first quarter came in at 25%. versus 24% for the prior quarter and 18% for the same quarter a year ago. We are pleased that on a dollar basis, we generated approximately $15 million of operating profit this quarter, slightly higher than operating profit during last quarter, and 75% higher than the $8.6 million operating profit in the same quarter of last year. We remain cognizant of our long-term target operating margin of 27% and continue to make meaningful progress towards that goal. Before we updated our long-term targets in December 2025, we had achieved our prior long-term targets set in 2023 within two years of setting those prior targets. As we reflect on our current target model of 27% operating margin and achievement of 24% during Q4 of 2035 and 25% for Q1 of 2026, we are happy to note that we are making faster progress towards our long-term targets than the last time. Net income for the quarter totaled $12.6 million or $0.31 per share, compared to $8.1 million or

$0.21 per share in the same quarter a year ago, or up 56% for net income and 48% for EPS on a year-over-year basis. We anticipate improvements in EPS as we approach the long-term model due to the scale the business is achieving, as our costs to operate the business are rising slower than our revenues. Turning to the balance sheet, we ended the quarter with cash, cash equivalents, and short-term investments of $31 million, compared to $42 million at the end of the prior quarter, with the change primarily driven by approximately $10 million used for CapEx needs, related primarily to building ePROP systems and fulfilling the customer demand we have spoken about. Given the demand we're seeing, we expect to increase our cap expense for this year versus last year, balanced by customer collections, such that we expect to grow our cash balance over the coming quarters, particularly the second half of the year. After the quarter close, we also expanded our revolving credit facility and have $30 million of unused revolver credit facility now available for use by the company as needed. As we look to the rest of the year, We reiterate our expectation that 2026 revenue will grow year over year consistent with our 20% long-term revenue growth target and that we will make meaningful progress towards our long-term target margin operating models of 27% with gross margin of 77%. With that, let me turn the call over to the operator for Q&A. Operator?

Operator | Conference Operator:

Certainly. Ladies and gentlemen, if you do have a question at this time, please press star 11 on your telephone. One moment for our first question. And our first question comes from the line of Blair Abernathy from Rosenblatt Securities. Your question, please.

Blair Abernathy | Analyst, Rosenblatt Securities:

Thanks, guys. Nice quarter. I just wanted to, John, just maybe if you could give us a little more color on how you're doing with the E-Probe, particularly around new customers. What's that pipeline looking like? And you said you're on track for about six shipments this year. How much is that net new customers?

John Kabarian | President and Chief Executive Officer:

We expect about a third of them to end up at net new customers and the others to be repeat orders on existing customers. And Maybe not all of them directly contributing to revenue this year. One of them may end up being a – will be a demo machine. So probably five of the six will be revenue generating. One will be demo. Two will be at new customers. The other four should be at existing customers, at least as it looks now.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay. And, you know, looking ahead to 2027, I know it's only – It's only May here, but how are you thinking about how the pipeline is developing for next year?

John Kabarian | President and Chief Executive Officer:

Yeah, it's a great question. We do see quite a bit of interest. We are trying to build as many additional machines as we can. We've committed to six. We are looking to see what we can do about additional. We do have interest to be able to ship additional demo machines. and it is gated by our ability to, you know, how we look at executing. But what we don't get to this year, we'll start serving next year.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay. Okay. Great. And then just on the secure-wise, how is that pipeline developing on that side of the business now that you've had it for a year?

John Kabarian | President and Chief Executive Officer:

Yeah. So a couple of things have happened. You know, first of all, As I mentioned in my prepared remarks, we started providing service directly to the FABs. What we found was FABs also have people all around the world. And the security features that SecureWise provides, the ability to have a log of who was looking at what data when and what machine when, you know, auditable for a couple of years is very valuable, even when it's within the same company. So starting last year, we started selling to the fabs at our user conference. Intel talked about how they standardized on secure wise. What that's also done is gotten a lot of the equipment vendors who, um, you know, when we bought the company, um, the largest equipment vendors of the world were the heaviest users of data for secure wise and also the biggest customers because they had developed the most services usually related to AI that provided value by taking the data from the machines, analyzing it at headquarters and providing back updated models and value-added capabilities. But every equipment customer wants to be able to do that. The company wants to be able to do that. And I think the Intel announcement gave a number of other equipment companies the realization that this was going to become more available. And so we've started picking up and have quite a deep pipeline to expand the business with what I would say is SecureWise Classic, the business with equipment vendors. Also, we've been picking up more business with the fabs. And as I said in my prepared remarks more recently, as we look at the OSATs and the fabless and even the foundries as they go out to those facilities, we start getting interest in people connecting front end to back end as advanced packaging becomes more important, back end packaging to the fabless as the testing and production is becoming more important. So we've got pilots ongoing. to bring SecureWise out to that part of the community too, leveraging on the fact that we already had DEX services there, which was our own historical system, to many of the OSATs as well. So it's been a natural extension to bring the SecureWise additional capabilities it provides out to that part of the market, and now we're going into that. So that's kind of our big activity for the second year of our stewardship of the product.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay, great. Thanks very much.

Operator | Conference Operator:

Thank you. And our next question comes from the line of Clark Wright from DA Davidson. Your question, please.

Clark Wright | Analyst, DA Davidson:

Awesome. Thank you. Well, I would just like to start maybe the question for Adnan here around the CapEx guidance that you brought up with the step-up that we saw in 1Q. Could we maybe, you know, parse through if that's demand-driven where you're seeing CapEx up front in order to supply E-PROB systems later this year, or if there's anything that's more related to the long-term objectives of that business?

Adnan Reza | Chief Financial Officer:

Yeah, I think as you have heard our prior remarks and us confirming today one out of the six machines that we targeted for this year getting shipped, if you looked at our install base that we have spoken about, six machines through the end of last year and then shipping six this year, that's a meaningful step up that we're trying to get to this year. And that spend is to make sure that we are positioned well to meet that demand. Somewhat of it is starting to think about the future, but it's mostly related to the current demand that we are needing to meet for this year.

Clark Wright | Analyst, DA Davidson:

Got it. Got it. And then additionally, you know, last year, 53% of revenue came from the top three customers based on your disclosures in 10K. Can you provide any color on the conversations you're having right now? You referenced numerous times the points around demand and interest. How do you expect these large relationships to grow this year? And if there's any upside potential opportunities within that customer base?

John Kabarian | President and Chief Executive Officer:

Sure. You know, Always our business, the largest bookings have, you know, it's an 80-20 rule, right? The top 20% drive a high percentage of the bookings volume, typically. And we expect that again this year. You are correct that it is broadening in terms of the number of types of customers. Before we had SecureWise, you know, very few of the equipment companies were in our top 20 list. Now we have equipment companies in the top five list, and that is growing quite rapidly. quite meaningfully. Also, we see with what we're doing with Accentio, a lot of opportunity to expand to the core Fabless and merchant semiconductor IDM. So we do expect this year the bookings to broaden up. We do have a couple of customers that are very large, significant customers that we do expect renewal bookings this year too. So the exact ratio, Clark, I'm not so sure about, but I think the volume of bookings this year will have a mix of maybe wait a little bit more in terms of numbers of newer significant customers. In terms of dollars, probably the repeat customers may be some of the bigger dollar amounts.

Clark Wright | Analyst, DA Davidson:

Got it. Got it. That's helpful. And then one last thing as I was going through the queue, I just wanted to kind of understand the margin implications. Looking at gain share and advance test revenues for down year over year. and just trying to understand if the margins we see today would benefit from increased share there, or if you're not expecting any additional gain share revenue going forward, or at least on the growth side.

John Kabarian | President and Chief Executive Officer:

Yeah, so, you know, the volume-based part of the business is at least in our control, how volumes, how customers ship volumes, how much data they use, and how much wafers they ship, and so that is relatively volatile. We don't put that in our backlog, right? Yet we know it's always going to be there. It does always, you know, when that's significant, it does really help with our gross margin. So obviously, you know, to achieve the 76% gross margin that we achieved this quarter, while that number was down, really speaks to the overall scale of the business overall and why our confidence and why we believe we can meet or exceed the 77% long-term target, maybe in shorter time than, you know, the typical three to, plus years that people typically set for a long-term target and recognize we just set that target in December. So, I mean, the way we looked at it was we know people will be shipping. We will start seeing those volume-based numbers go back up. And as they come back up, as well as the scale on the rest of the business, we do expect to meet and exceed our gross margin targets.

Operator | Conference Operator:

Got it. Thank you. I'll step back and thank you. thank you and as a reminder ladies and gentlemen if you do have a question at this time please press star one one on your telephone our next question comes in the line of christian swab from craig hallam your question please hey guys this is ben ben taxon for christian schwab here um great quarter uh i just want to go back to that those targets and and tracking a little bit

Ben Taxon | Analyst, Craig-Hallum Securities (for Christian Schwab):

earlier than expected. I know you just mentioned it's early still, but I mean, could we kind of expect this getting to those targets to be a 27 event or could it be a little bit longer?

John Kabarian | President and Chief Executive Officer:

So if you look, you know, our 2023 targets, you know, were 20% revenue growth, 75% gross margin, 20% operating margin. And within two years, by 2025, really just in Q4, of 2025, we exceeded all those numbers, I believe. It was the first year that we exceeded them. We then set new targets for, again, 20% revenue growth, but now on a much bigger base, 77% gross margin and 27% operating margin. So I think people were surprised at the big jump up in operating margin going from 20% to 27% while gross margins were going from 75% to 77%. And that was in part because as we start getting scale, we felt that the R&D leverage you start getting becomes significant, the G&A leverage you start getting becomes significant. And now if you look at the first couple of quarters, we're now at, let's say, 24%, 25% on that operating number. So we've made reasonable progress to that 27%. We're at 76%, so we've made some progress from 75% to 77%. We're starting to get there as well. And we do think we can get there sooner than the typical three years and probably sooner than we did the last time. How much sooner? You know, we're not quite ready, Ben, to say how much sooner. We'll see how the remainder of the year progresses. But we're super confident that, you know, this will come in strong and quickly. It's not going to take us typical three years for a long-term model.

Ben Taxon | Analyst, Craig-Hallum Securities (for Christian Schwab):

Okay. Great. Great. And then one question, one more on eProbe. You talked about the six this year.

John Kabarian | President and Chief Executive Officer:

how many i mean where could that be in 27 28 or or how big of an opportunity could this be in a month you know over a multi-year period a little bit more color on that yeah you know um it's a question that we're we're getting our own hands on well i can't tell you ben is right now the majority of the machines are subscribed and we expect them to stay subscribed over that time period anyway And what that means is that it's not like a capital purchase where we have to go and start from zero every quarter. We build from that base. So our base exiting last year was six machines, but five of the six on a subscription. We expect to end this year with approximately double that on a subscription basis. So about 10 of the 12, one in demo and one that was purchased. So that means that we keep on building that foundation. If we can sustain slight modest growth in the number of machines we ship each year, we can get substantially more revenue growth than that because all of them, all the previous machines are still, or the majority of the previous machines are still contributing revenue. So we do believe as you look out over 27 and 28, even if all we do is maintain this level, the E-Probe continues to be a very important part and growing part of the business. Now, we think the total market for eBEAM has been talked about by others is the fastest growing inspection product category in the front end because so many of the nature, so many of the defects are now three-dimensional in nature, and eBEAM is the most efficient way to look at 3D defects. And we feel we have very unique capability there. So the overall market's quite substantial, you know, depending on who you listen to. It's on the over a billion dollar market. you'd have to flip that to a subscription market versus a perpetual market. So you might look at that a little bit differently if you modeled that on a subscription basis. But it would stack up over time. It is a meaningful market.

Operator | Conference Operator:

Great. Great. Thanks, guys. Thank you. And our next question is a follow-up question from the line of Clark Wright from DA Davidson. Your question, please.

Clark Wright | Analyst, DA Davidson:

Heather, I just wanted to jump back in and just ask one on the leading edge players in your relationships with those. I know during the Investor Day, that was a point of emphasis that you were making from a go-to-market perspective. Could you provide any update on the initiatives that you're putting in action in order to gain share with those FAB players in the broader ecosystem?

John Kabarian | President and Chief Executive Officer:

Yeah, sure, Clark. I mean, a few things. The previous question that Ben had about the E-Probe is a significant part of it. There's a big, big emphasis there. The E-Probe tie-in to design is increasingly important for our customers. They'd like to understand exactly what the, you know, when the E-Probe finds things, exactly what about the design made that, you know, interacted with the process. So there's some AI capabilities that we're building into the E-Probe for that. Customers love that. because the E-Probe has to block the entire design, not just the layer it's looking at, but how that layer is connected to every other layer. Secondarily, in my prepared remarks, I talked a little bit about AI integration with Accenture and the releases that we're making this year. One of the targeted areas is the ability to interpret and understand the data coming off our test vehicles. Our test vehicles are the most, in the industry, probably the most widely used and very detailed. And they have thousands of experiments in them. And of course, the engineer has to know how to go through and look through all of that. And obviously, you can see how AI could play a very important role there to find the critical signals, interpret that, tie it into layout. So the way that we're going back and showing customers why they want to do more with our vehicles and systems is in part that AI integration with The Accenture module that does, called Accenture char characterization, that does the interpretation of the CV data, the characterization vehicle data. Sorry for all the PDF acronyms there. And so that is a big piece of what we're doing in terms of driving from a product innovation standpoint. And then lastly, of course, partnerships in the industry, collaborations are always places where our systems turn out to be very valuable because you're able to share data, share analytics, understand how to work together. whether that's SecureWise, the characterization vehicles, Accenture itself. These are all points of systems that we provide to customers that are looking to collaborate. In this environment, more and more collaboration is needed. And so it's a great selling environment for us for that capability on the leading edge.

Operator | Conference Operator:

Got it. Thank you. Thank you. And as a reminder, ladies and gentlemen, if you do have a question at this time, please press star 1-1 on your telephone. At this time, there are no more questions. Ladies and gentlemen, this concludes the program. Thank you for joining us on today's call.