NASDAQ:PDFS Q2 2026 Earnings Call Transcript

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Adnan Raza | Chief Financial Officer:

to meet the demand we're seeing and to order some of the longer lead time items as we look to future shipments. For each of the next two quarters, we expect to spend incrementally higher capex than Q2. For the full year, we expect the average quarterly capex similar to Q2. The increased capex year over year is in part due to higher component costs we're seeing to meet the customer demands that John spoke about for the direct scan systems. Given the strength of our business, we expect to grow our cash balances this year and end the year at higher ending cash balance compared to Q2. While we also bring down our debt balance, we have scheduled payments. 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 of 20% for full year 2026 compared to the prior full year 2025. With that, let me turn the call over to the operator for Q&A.

Operator:

Thank you, Mr. Raza. 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. Please wait one moment for our first question. Our first question comes from the line of Clock Right with DA Davidson. Your line is open.

Clark Right | Equity Research Analyst, DA Davidson:

Heather, thank you. Roughly a year ago, you noted that the target audience for direct scan systems was 5 to 10 customers. Based on the conversations you were having today with prospects, has that group expanded?

John | Chief Executive Officer:

Yeah, it's a good question, Clark. Thank you. We do think it's expanding. In my prepared remarks, I mentioned that we saw value for a customer that was developing a more mature node. And we do see other customers like them that are developing more mature notes. And we had been working with them for quite a while. This contract was a significant contract for us. It kicked off in the second quarter. And we do see, besides them, expansion there as well as expansion with other customers. It does increase the aperture. How much broader it is, I don't know, but it's definitely bigger than what we thought.

Clark Right | Equity Research Analyst, DA Davidson:

Got it. And then it was great to see the acceleration and backlog growth this quarter. Can you talk about the source of growth, and if this is primarily coming from your large existing customers, or if there's a broadening across the customer base?

John | Chief Executive Officer:

Yeah, so some of it's from new customers, as I alluded to on that direct scan contract, which contributed to backlog, as Adnan said in his prepared remarks. But also, you know, usually a good chunk of it is existing customers, as I said. The large eight-figure SecureWise contract was with an existing equipment company extending out for a number of years their use of the system at the minimum level with growth on top of that.

Clark Right | Equity Research Analyst, DA Davidson:

Got it. And then last one for Adnan. Could you help me better understand just the component that drove the gross margin contraction this quarter? If we should think about current levels being the run rate for the rest of the year, or if we should think about expansion back to more of the 1Q levels.

Adnan Raza | Chief Financial Officer:

Yeah, absolutely. So I think I said this in a prepared remarks, but really the Q1 had some perpetual software licenses, and that is really what drove the difference for this quarter. I also mentioned in the remarks that for the next quarter, we expect the margins to be reverting back to the levels that we are historically used to. I think more important than anything, If you remember when we raised our gross margin and operating margin targets, we said that we expect this new target to be achieved at a faster pace than what we took us for the last ones. And recall, the last ones took us two years. So as long as we're inside of that time window, that remains our goal. And the last comment I made on the call and the prepared remarks was that we have a line of sight to the 77% target model. So stay tuned. Got it. Thank you.

Operator:

Thank you. Please stand by for our next question. Our next question comes from the line of Blair Abernethy with Rosenblatt Securities. Your line is open.

Blair Abernethy | Analyst, Rosenblatt Securities:

Hi, nice quarter, guys. Thank you. John, I'm just wondering, first off, on the secure-wise, to get an eight-figure contract there is pretty impressive. How are you thinking about The market opportunity now for SecureWise, you've had it for a year or so. How big do you think that TAM could be?

John | Chief Executive Officer:

When we acquired it, our thesis was that they had really only monetized the equipment vendors. They fundamentally installed all the front-end FAPs and then charged the equipment vendors for access. You saw last year we did, and it came out at our user conference, a large contract with Intel that standardized on SecureWise. And they spoke at our user conference that they would make SecureWise available to any equipment vendor that wanted to have remote access at Intel. And they continue to talk about that at their events with equipment vendors about the importance of getting remote connectivity and superior support. They provide a minimal level through that contract. And then if the customer wants to transmit lots of data, the equipment vendor wants to transmit lots of data and provide more AI-driven solutions, then they direct the equipment vendor to us. So this has been a great way to us to convince every equipment vendor remote access is possible because Intel has made that possible. Now with this contract we signed this last quarter, took a very significant customer of ours on the equipment side and commit across all 3-millimeter fabs for a number of years. So that communicates to the equipment industry, and SecureWise will be available at any fun and fab that you're going to. Intel also, as well as other customers, started making it available in the back-end test and assembly. So if you look at what we've done, we've started to demonstrate that there is a SecureWise application with the fabs themselves. That was the Intel contract for their own internal use. There is, of course, an expanding capability at the equipment vendors because we're demonstrating that it is becoming a standard that you can count on in most places. And we're extending it into the back end because the production is getting more complex. We think, you know, as I said in my prepared remarks, ultimately, more and more of that activity on the SecureWise network will just be agents. It won't necessarily be humans already. The majority of the revenue comes from data transmission across the network, which is really a key part of the AI pipeline. So how much bigger? We think it can grow at least at the company growth rate over these next few years, at least at that level.

Blair Abernethy | Analyst, Rosenblatt Securities:

OK, great. And then just turning over to the to the DFI. Just maybe talk about the pipeline there, how it's shifted. And there's an eval you said in one of the machines that was shipped this quarter. How are you thinking about the ramp there in terms of getting to contracted revenue?

John | Chief Executive Officer:

Yeah, so I think we've had a very good dialogue with that customer. We know what kinds of things they want to see the machine do. They selected the machine because they thought it had some very unique capability. This is getting us into the memory market, which is an important step. Expansion into the more mature nodes, expansion to memory. We'll look at geographic expansion as we get further through this year, early next year. How quickly it converts, I think, you know, these things typically take, you know, close to a year to convert, so I'm not going to go and speculate on when it will convert, but, you know, or if it will convert, but we do see this as an important beachhead for us.

Blair Abernethy | Analyst, Rosenblatt Securities:

Okay, and then in terms of your CapEx, you're just, Adnan, I wonder if you, I didn't catch all of that. Did you say that you sort of felt that the The run rate we're seeing for Q2 is going to be the average for the year. Let me clarify that.

Adnan Raza | Chief Financial Officer:

So two comments, two parts. One, that we expect for Q3 and Q4 the capex to incrementally be higher compared to where it was for Q2. And then when you look at the whole year capex and just look at an average quarterly amount, the math would say it's similar to where we were in Q2 of this year. So net spending a little bit more. But I think the key thing to take away is, look, with the strength of bookings, with the strength in the business, even with this capex, we're looking to grow cash from the levels of Q2. So that's something we feel good about.

Operator:

Thank you. As a reminder, ladies and gentlemen, that's star 11 to ask the question. Please stand by for our next question. Our next question comes from the line of Christian Schwab with Greg Hallam. Your line is open.

Ben Tax | Analyst (for Christian Schwab):

Hey, guys. It's Ben. It's Ben Tax, all on for Christian here. A lot of my questions are answered, but just one on the E-Probe is, you know, we're on target to hit six this year, it seems like. What's the visibility looking like into 27? And, you know, could we ship, you know, another six? Or, you know, how can I kind of think about that?

John | Chief Executive Officer:

Yeah, well, it's a little, I mean, we are having dialogues with customers about that now, Ben. I don't know that we're ready to go and communicate what we think 2027 would look like. We have been working with our supply chain to both optimize time that it takes to bring things up so we have more flexibility. Capacity we feel pretty good about. We think that they're able to build at a level higher than this. So we feel like we're not limited from a capacity standpoint yet. and a little bit on supply. The biggest issue has just been around timeline and supply chain. We alluded to costs, particularly around the computing element of the solution, keep going up on the computing side. So we're doing some things there around how we drive our costs to be a little bit more effective given where memory prices are going and other things like that. So hopefully later this year we'll be able to communicate our targets for 2027. on terms of what we think production will be. But there's potential that we could produce more if we needed to. For sure, there's the leverage there.

Ben Tax | Analyst (for Christian Schwab):

Perfect. That's all I got. Thanks, guys.

Operator:

Thank you. As a reminder, ladies and gentlemen, that's star 1-1 to ask the questions. At this time, there are no more questions. Ladies and gentlemen, this concludes the program. Thank you for joining us on today's call. You may now disconnect.