NASDAQ:PSIX Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good afternoon and welcome to Power Solutions International first quarter 2026 earnings conference call. Currently, all participants are in listen-only mode. A question and answer session will follow the formal presentation. As a reminder, this conference call is being recorded. I would now like to hand the conference over to Ken Jenk, VP Corporate Controller, PSI. You may begin.

Ken Jenk | VP Corporate Controller, Power Solutions International:

Good afternoon and welcome to Power Solutions International's first quarter 2026 earnings conference call. Joining me on today's call are Dino Zykes, Chief Executive Officer, Ken Lee, Chief Financial Officer, and Dorothy Du, General Counsel. Statements made in today's discussion, as well as information provided from time to time by Power Solutions International, Inc., will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and assumptions and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Among the factors that could cause Actual results to differ materially are the timing and ultimate conversion of power systems orders, including data center-related orders, quarterly variability in our product mix and corresponding gross margin, the cost, pace, and outcome of capacity ramp-up activities at our Wisconsin operation, demand in the oil and gas end market, supply chain, and component availability, macroeconomic, regulatory, and trade conditions, pending litigation and regulatory inquiries, and the other risks and uncertainties described in our most recent annual report on Form 10-K, our quarterly reports on Form 10-Q, and other filings with the SEC, all of which are incorporated by reference for purposes of today's call. The company undertakes no obligation to update any forward-looking statements except as required by law. We will also reference certain non-GAAP financial measures on today's call. Reconciliations to the most directly comparable GAAP measures are available in our earnings release and SEC filings. With that, I will turn the call over to Dino.

Dino Zykes | Chief Executive Officer:

Good afternoon, everyone, and thank you for joining us. We appreciate your time today and your continued interest in PSI. For many of you, this is the first earnings conference call you have heard from PSI since December, 2024, uplifting to the NASDAQ stock market. I will start with a brief overview of our company and we'll then turn the call over to Ken to walk through our financial performance and our outlook. Company overview. Power Solutions International founded in 1985 and headquartered in Wooddale, Illinois, designs and manufactures emission-certified engines and integrated power systems across natural gas, propane, diesel, gasoline, and biofuels. The company has produced more than 1.5 million engines over its history and operates manufacturing and engineering facilities across Illinois, Wisconsin, Texas, and Michigan. PSI serves OEM customers across power systems industrial and transportation and markets, including data centers, standby power, oil and gas, material handling, and specialized vehicles. Over the past several years, PSIS has improved profitability, reduced its debt, strengthened its balance sheet, refinanced its credit facility, and uplisted to NASDAQ in December of 2024. In 2025, the company was added to the Russell 3000, Russell 2000, Russell Micro Cap and MSCI USA Small Cap Indices. The first quarter. Turning to the quarter, as Ken will describe in more detail, our first quarter results were below the strong prior year period, which had benefit from significant growth in our power systems business. The year-over-year declines in sales and profitability primarily reflected softer oil and gas demand the timing of certain power system treatments, and elevated production costs associated with a capacity ramp-up in our Wisconsin operations. At the same time, demand related to data center application remained solid, and gross margin improved sequentially from the fourth quarter of 2025, owing it in part to the company's efforts to improve operational efficiency in Wisconsin, but partially offset by unfavorable product mix. With that, I will turn the call over to Ken.

Ken Lee | Chief Financial Officer:

Thank you, Dino, and good afternoon, everyone. I will walk through our financial performance for the first quarter, then provide some operational context and updates on liquidity and our outlook framework for the balance of the year. Net sales for the first quarter were 128.6 million. representing a decline of approximately 5% year-over-year. This decrease was primarily driven by lower sales in our power systems and the markets, reflecting uneven customer ordering patterns and the continued softness in the oil and gas markets. These declines were partially offset by growth in our industrial and the transportation and the markets. Growth profit for the quarter was $29.4 million, compared to 40.3 million in the prior year, and the gross margin was 22.9% compared to 29.7% in the prior year period. The year-over-year decline in gross margin reflects a less favorable powder mix in the period, including lower contributions from oil and gas powder, together with elevated production cost associated with capacity ramp-up activities. supporting data center-related applications. On a sequential basis, gold's margin was approximately 100 base points higher than the fourth quarter of 2025, which we believe shows early progress in reducing operational inefficiencies. So the gain was partially offset by an unfavorable powder mix in the first quarter. We caution that capacity ramp-up activities at our Wisconsin operations are continuing, and we expect elevated product costs raised to that ramp-up to persist, with the trajectory of any further sequential improvement subject to product mix, slow parts, and other operational factors. Operating expense was $18 million, up approximately 15% year-over-year. reflecting continued investments in research and development to support new product initiatives, as well as increased selling and administrative expense to support growth. Operating income for the quarter was $11.4 million compared to $20.6 million in the prior year period. Net income was $7.3 million, our $0.32 per diluted share, compared to $19.1 million, our $0.83 share. per dilute share in the five-year, and just EBITDA was $13.9 million, reflecting the same underlying operational dynamics impacting profitability. Turning to cash flow, we generated $18.7 million of operating cash flow in the quarter, more than doubling compared to the five-year period, and driven primarily by favorable working capital dynamics. From a balance sheet perspective, we ended the quarter with $45.1 million of cash and cash equivalents, and approximately $103.4 million of total debts. Our balance sheet remains solid, and we continue to generate positive cash flow. From a liquidity standpoint, we are well positioned. Our cash generation, combined with access to our $135 million revolving credit facility, provides flexibility to support our operations and ongoing investments. We believe our current liquidity position is sufficient to meet our anticipated cash needs for at least the next two months. Turning to our priorities for 2026, our team is focused on operational execution, ongoing margin recovery, reliable delivery against customer commitments, and consistent communication with our investors. Given ongoing variability in order timing and the market conditions, the company is not providing formal four-year guidance at this time. Based on current visibility, the company currently expects second quarter 2026 revenue to be generally consistent with the first quarter on sequential basis. The company anticipates strong sales goals in the second half of 2026. Approximately in line with sales in the second half of 2025, as larger power system orders move into production and are recognized as revenue. However, the timing and ultimate volume of those shipments remain subject to customer scheduling, manufacturing slow parts, supply chain factors, and other variables. There can be no assurance that those orders will translate to a uniformly strong second half. Continued softness in the oil and gas and the market is expected to weigh on quarterly revenue trends and the capacity ramp-up activities as the company's Wisconsin operations and their related cost effects on gross margin are expected to continue. We continue to see ongoing demand for power infrastructure, particularly in data centers and distributed power applications. and to invest in our manufacturing footprints and product platforms in support of that demand. Converting that demand into revenue depends on the operational and market factors I have described, and we will continue to update investors as the year progresses. With that, operates, please open the line for questions.

Operator | Conference Operator:

Thank you. To ask a question, please press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again. Please stand by while we compile the Q&A roster. Our first question comes from the line of Eric Stein with Craig Hallam Capital Group. Your line is now open.

Eric Stein | Analyst, Craig-Hallam Capital Group:

Hi, Dino. Hi, Ken. Hi, Alec. Hello. You know, I'm wondering, so on Q1, if you're able to, could you just give a little detail on... specifically power systems and, you know, maybe not exact, but, you know, talk about kind of the contribution from oil and gas. You know, clearly that is something that you've talked about since late last year, have seen it, not really a surprise, but curious how do we view that and then also view that you are ramping up the enclosure business? And then curious what that enclosure business, you know, are you expecting more of a ramp up in Q2? You know, what kind of goes into your Q2 view as well?

Ken Lee | Chief Financial Officer:

So, Alec, you know, for the power system, the 1Q sales is about 96 million and versus last year, like 107 million. And as we mentioned, you know, we start to notice the softening in the oil and gas later last year, right? And this softness extended to 1Q this year. So most of the sales decrease, you know, this quarter versus last year, 1Q is driven by the poor system. The oil and gas, the softness, and also the uneven customer demand for other data center rates the product. So we, right now, in the near term, we still assume the oil and gas will remain soft throughout the year. And if there's some pickup, definitely it will be favorable for the sales and also margin perspective. Now for the Wisconsin operation, the company, you know, adding resource to support a Wisconsin operation. And we, you know, we are doing lots of process improvements, time study, you know, we see some notable improvements in the cost of structural labor overhead in the manufacturing cost if we compare this quarter versus, you know, 4K or last year. And the improvement is also the fact that, you know, our margin, gross margin improvements, you know, 100 base points, this quarter versus last quarter, right? Now, for the orders regarding to the data center products, As we indicated in the first release, we anticipate strong activity in the second half. And this is based on some orders we already received. So now we expect the second half, the sales, will be the same level as we had last year for the second half. But again, the actual, you know, Shipment timing and the volume is subject to the customer schedule, our slow pause, and also the supply chain.

Eric Stein | Analyst, Craig-Hallam Capital Group:

Right. Yep. No, of course. So then if I think about second quarter, I mean, are you, because obviously you're coming out of, you know, this period where you're now starting to ramp up the enclosure business after doing, you know, you've got a number of ongoing improvements, so I get that. But if you're looking for a flat sequential quarter, looking for enclosure growth, I mean, that would imply that you are expecting further weakening of oil and gas in Q2. Curious if that is your intention or, because I mean, it sounds like you haven't really seen an improvement there and don't expect to, even if oil, you know, has certainly, you know, has appreciated given what's going on in the Middle East. But it sounds like you don't necessarily think that that has a positive impact anytime soon.

Ken Lee | Chief Financial Officer:

You're right, Alex. Even though the oil price is very high and we're not seeing significant ordering for oil and gas products, so for the second quarter, we expect it will be the same level as Q1.

Eric Stein | Analyst, Craig-Hallam Capital Group:

Okay. I may have missed it, but just on gross margins, can you talk about I don't know if you said it, but I think you might have said that you expect that you're starting to see a little bit of improvement given all the steps that you took in Q4 and early in Q1, and that expect continued improvement throughout the year. And I'm not sure if you gave any indications of the magnitude.

Ken Lee | Chief Financial Officer:

So the 1Q goes margin 22.9%, and the 4Q was 21.9%. So it's about 100 base point of improvements. But we, as I said, we did see some notable improvements for our Wisconsin operation. And going forward, we expect the gross margin will be flat or slightly better than 1-2. Again, this is also subject to the powder mix and also our cost structure improvement. And the 1Q, the growth margin, you know, was kind of, you know, negatively impacted by powder mix. Usually our oil and gas products carry a high growth margin. So this is impacted by the oil and gas also for the 1Q.

Eric Stein | Analyst, Craig-Hallam Capital Group:

Okay. Last one for me, just curious. I mean, I know you're about a quarter in or a little bit over but just would love some thoughts on the mtl acquisition um you know some of the benefits you're seeing why you did it i mean it's pretty straightforward but would just love you to kind of give your thoughts on that that acquisition in its early days sure so we completed the mt acquisition on january 9th you know this year

Ken Lee | Chief Financial Officer:

And MTR specialize in fabrication, welding, painting, and assembly of metal components. And it's also make the data center, you know, parts. And MTR has been, you know, PSI supplier for a long time, more than 10 years. They have been, you know, supplying us the fuel tank, right? And this acquisition definitely help us to vertically integrate our supply chain help us to reduce the lead time, and also PSI can have access to its UI, you know, UAL certification. So the SYNC acquisition, the integration is underway, and, you know, we are exploring different opportunities, you know, to leverage the MGL asset base to help us, you know, to do other, you know, fabrication for the data center with the components. The revenue contribution from MTL, you know, is expected to be pretty modest in 2026. And in the near term, the team focus will be on the operational execution, slow part collaboration, and production, you know, consistency.

Eric Stein | Analyst, Craig-Hallam Capital Group:

Okay. Thank you very much. Thank you.

Operator | Conference Operator:

Our next question comes from the line of Alan Lau with Jefferies. Your line is now open.

Alan Lau | Analyst, Jefferies:

Thanks for taking my question. So we'd like to understand more on the growth outlook, especially from the enclosure business as the company ramps up the production. So we'd like to know if you might share what's the capacity in dollar terms for and are getting orders from our major clients. Thanks.

Ken Lee | Chief Financial Officer:

Thank you, Alan. So, Alan, you know, we serve our customer, you know, mainly in three kind of industry and markets, you know, basically industrial power system and also transportation. And for the power system, we provide the products, you know, microgrid, standby power, prime power, and also data center related products like Encosio. So in our financial statements, you know, we do not break down the sales stories to the enclosure business. So it's within our power system, you know, in the power system, you know, and the user markets. So we will say, you know, we receive some orders from our customer and we anticipate strong activity in the second half of the year. And we expect the second half sales will be at the level we had in our second half last year. And we still have some pretty solid demand from our customer, our products. And certainly, as I said, the actual shipment timing and the volume still subject to the customer schedule and our capability, you know, how successful we can convert the orders to sales.

Alan Lau | Analyst, Jefferies:

Understood. So, we'd like to follow up on oil and gas because so, you mentioned that you expect second half of the revenue would be similar to last year. So, we'd like to know if it in terms of absolute terms, which means because second half last year, I think the revenue in total is roughly $4 billion. So do you mean you expect second half, the revenue is approximately at $4 billion level?

Ken Lee | Chief Financial Officer:

So the second half, right now, our kind of general odds look is the second half sales will be similar last year, second half, right? Because we anticipate a strong demand for our products, you know, and activity in the second half, right? So that's our, you know, outlook based on the orders, you know, we have right now from our customer and also our forecast.

Alan Lau | Analyst, Jefferies:

So what's the mix of oil and gas in second half last year?

Ken Lee | Chief Financial Officer:

We do not provide, you know, the mixed information, you know, particular, you know, products in the market group, yeah.

Dino Zykes | Chief Executive Officer:

We have never provided that screen. It's under politics here.

Alan Lau | Analyst, Jefferies:

So, then we'd like to know if, like, Any major clients that, I understand may be a bit sensitive, but like any major orders you get from hyperscalers or key contractors for hyperscalers?

Dino Zykes | Chief Executive Officer:

We do not name individual customers. We never have.

Ken Lee | Chief Financial Officer:

Yeah. We do not provide information on any specific customers.

Alan Lau | Analyst, Jefferies:

Yeah. So, I wonder then, would you share the updates on gas engine? Because I think this gas engine for prime power is an upcoming trend. So, I wonder if you might share updates on that front.

Ken Lee | Chief Financial Officer:

Yeah. So, you know, the PSI, we provide, you know, a very broad portfolio of engines, right? starting from one lead all the way to 88 leads and 110 leads, and we are using multiple fuel cells such as, you know, gas, propylene, gasoline, diesel, and biofuel. So we spend R&D, you know, to develop the products. For the 1Q, we spent about, you know, $4.8 million, and we continue to spend, you know, R&D to develop new products and emission certification and also develop a special application for our customers. So what I say is there are definitely activities going on on the gas side, and we are working to develop the product to meet the industry demand. That's what we are doing. I will say the current – we have lots of current engineering activity, you know, includes ongoing work related to the emission compliance, thermal management, packaging optimization, and all kind of, you know, customer-specific application requirements. And we also, you know, doing R&D to develop a larger diesel engine for the data center market.

Alan Lau | Analyst, Jefferies:

Sold by bigger diesel engines, I wonder if it's above 3 megawatt.

Ken Lee | Chief Financial Officer:

I'm sorry, could you repeat that question again?

Alan Lau | Analyst, Jefferies:

I wonder if the bigger diesel engines are above the typical 2 to 3 megawatts.

Ken Lee | Chief Financial Officer:

So I think right now we have our 88 lit. It's above 3 megawatt, yeah.

Alan Lau | Analyst, Jefferies:

Understood. So thank you. I'll pass on. Thank you. Yeah, thank you.

Operator | Conference Operator:

Thank you. This concludes the Q&A session. Thank you all for your participation. This does conclude today's call. You may now disconnect.