NASDAQ:PSIX Q3 2026 Earnings Call Transcript

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Grace | Conference Call Operator:

Good day and thank you for standing by. Welcome to the Power Solutions International third quarter 2026 earnings conference call. At this time, all participants are in a 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. You will then hear an automated message advising that your hand is raised. To withdraw your question, please press star 1 1 again. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Ken Jenke, VP Corporate Controller for Power Solutions International. Please go ahead.

Ken Jenke | Vice President and Corporate Controller:

Good afternoon and welcome to Power Solutions International's third quarter 2026 earnings conference call. I'm Ken Jenke, Vice President and Corporate Controller. Joining me today are Richard Hu, our Chief Executive Officer, and Ken Li, our Chief Financial Officer. Before we begin, I would like to remind everyone that today's prepared remarks and responses to questions will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about our sales and margin outlook, order conversion, capacity ramp-up, operational improvements, new product development, potential investments in manufacturing capabilities, and our Power Boost 2030 strategy. These statements are based on current expectations and assumptions speak only as of today and are subject to risks and uncertainties that could cause actual results to differ materially. Important factors include the timing and ultimate conversion of power system orders into revenue, including data center related orders, quarterly variability in product mix, including the lower gross margins of data center products relative to oil and gas products, customer-specific requirements and changes to custom product orders, the cost, pace, throughput, and operational outcomes of capacity ramp-up activities at our Wisconsin operations, including the duration and magnitude of related production costs. Our ability to execute operational improvement initiatives, the level and persistence of customer demand, including demand conditions in the oil and gas end market. The concentration of our sales among a limited number of customers, including in the data center market, existing material availability constraints and other supply chain factors affecting shipment timing, mixed sales and gross margin. the nonrecurrence of the tariff refund and year-end adjustments, including those arising from inventory counts, the timing, scope, cost, and funding of potential investments in manufacturing capabilities, which remain under evaluation, integration of recent acquisitions, including MTL manufacturing and equipment, compliance with the covenants under our credit facility, macroeconomic, regulatory, and trade conditions, including U.S. tariffs and trade restrictions, changes in management or other personnel, and the outcome of pending or threatened litigation, including the previously disclosed securities class action and related shareholder derivative actions and other legal or regulatory matters. Additional information concerning factors that could cause actual results to differ materially is contained in our earnings release dated November 5, 2026 and under risk factors and the other cautionary disclosures in our annual report on Form 10-K for the year ended December 31, 2025 and subsequent Forms 10-Q and other SEC filings. Those disclosures are incorporated by reference for purposes of today's call and are available in the investor relations section of our website at www.psiengines.com. Our SEC filings are also available at sec.gov. We undertake no obligation to update any forward-looking statements except as required by law. We will also reference EBITDA, EBITDA margin, and net cash or net debt which are non-GAAP financial measures. The accompanying presentation also includes adjusted EBITDA. EBITDA margins represents EBITDA as a percentage of net sales. Net cash or net debt represents cash and cash equivalents less total debt, including finance lease liabilities. Definitions and reconciliations to the most directly comparable GAAP financial

measures appear in today's earnings release and the appendix to the accompanying investor presentation, both available in the investor relations section of our website at www.psiengine.com. These measures supplement and do not replace our GAAP results. With that, I will turn the call over to Richard.

Richard Hu | Chief Executive Officer:

Thank you, Ken. And good afternoon, everybody. Welcome again to joining us here with PSI earnings call. This is really my very first earnings call as the chief executive officer of PSI. Indeed, today, if I look at the calendar, it marks actually my 80th day with the company. I'm, again, super excited and humbled to be speaking with you during the call. Before we jump into the business, first, I do want to take the chance to thank Ken Li for taking his leadership, helping the company, being an interim chief executive officer. And also, I want to thank Ken for his partnership and also strong cooperation during the transition. Thank you very much, Ken. Since I joined the company in August, my focus has been learning and evaluating the business as soon as I can, as fast as I can. And I did it actually with my so-called 6P playbooks. The people, product, process, profit, partners and sometimes politics. As of today, I have met actually five of our key customers across the traditional industrial oil gas customer segment as well as the data center power. I have visited all today five existing production locations we have today in Illinois and Wisconsin. And also I did already two intercontinental travels meeting our key shareholders as well. So the takeaway here is what I have found. It's a company, PSI is a company, with really deep engineering expertise, with a strong, longstanding relationship with our customers. and also more importantly a wide range of the balanced and resilient product portfolio which I think it well positioned us ready to pivot to the embracing the new growth opportunities from either the traditional industrial oil gas as well as to capture the new incremental growth from a data center power market. During the past 80 days, you know, I have worked intensively and closely with our leadership team in the company. So we did have quite several rounds of the strategic sessions, workshops together. Collectively, the team of the PSI has developed a so-called Power Boost 2030 initiative. This strategy and roadmap will get the company continue to pivot to the next chapter of the company history. We call it PSI 2.0. PSI 2.0 marks, in my opinion, a new era, a new journey for the company and for the organization. Essentially, what PSI 2.0 or PowerBoost 2030 will do for us is to transition the company from a pure player in the industrial oil gas market into a wider branch of the portfolio covering both our traditional market as well as to capture a new incremental data center power incremental growth market. So the key word here I would emphasize is we are going to build a more balanced and resilient portfolio in which we can grow both from our heritage market as well as to capture the new incremental data center power market. With that being said, a minor example, one step forward for the company, was like last month we launched our new refreshed corporate logo identity, which it does reflect, in my opinion, the new evolution to move into a world to a more modern, more technology-oriented company at PSI. Today, our priorities under PowerBoost 2030 is clear. So deliver the customer commitment, expanding our presence into the new rapid growth data center market and also fast forward with our key initiatives. For example, we do want to reinforce our manufacturing in the U.S. That's one of the key initiatives we are promoting. We do want to continually to depending our commitment and investment in North America to support our customers more sustainably and with a profitable growth. Last but not least, let me talk about VIA. So vision into the action. Me, myself, being a big fan of VIA, which is all about execution. Currently, our team are working intensively to put the strategy into the actions. Internally, as of today, we are focusing on shifting and optimizing our operational model, organizational structure, processes, in promoting a greater speed and agility. And also we are making a DNA reprogramming the culture of the company. All of us, we are pivoting to a more agile focus on execution deliverable organization. So now let's turn into the Q3. Big picture overall, I believe Our Q3 result does reflect a strong operational performance. Net sales of $202 million increased 32.5% sequentially versus Q2. And also, it's well in line year over year at the same quarter last year. You look at the net income. Net income was growing about 8% into $29.9 million. You look at it from a diluted earnings per share, it's reaching about $1.3 per diluted share. We also generated a very strong cash flow in the quarter three. So we are talking about around about $34 million net cash, very strong performance. With that being said, Ken, the CFO will walk you through on some of the details of the quarter when it comes to cash flow, because there are some one-time factors which we

do not expect to recur. Talk about the market and operations. I would say, again, in power system, we see the demand from data center-related products remaining strong, and that's really kind of partially offset the continued softness of oil gas revenue. The timing and the volume for the revenue from that demand remains subject to the customer scheduling, some of the manufacturing through the output, and also some of our supply chain material availability and some challenges from our supplier base as well. So at this moment, we're not predicting a specific level of the data center revenue in any near future. With that being said, we are indeed, again, working very intensively with our customers, focusing on the 2027 order intake. When we talk about Wisconsin operations, I think the message here is that we are, our operations are continuously improving, climbing on the performance lifting pattern. We see the performance keep moving up, reduced significantly the elevated production cost. Also, the capacity ramping up, it's on track, on plan, and continue. And also, we expect today the relative production cost to persist, we remain focused on the on-time delivery for the customer, which is number one priority for Wisconsin operations. Again, if we talk about AI data center power industry, I think the business continued to expanding rapidly demand, and also they are asking a more reliable, scalable, and efficient power solutions. We see the situation is continuously accelerating, at least in the middle and longer term. In response, PSI, what we are doing today from product perspective, we are advancing the development activities in terms of the natural gas engines and the generators because this is potentially a new mainstream of the demand from the industry. Over the past year, we have established a regular quarterly earnings calls. We refreshed also our investor website to improve the communications with our external investors. I think this pattern, we are going to continuously continue and continuously improve. Our goal is to really reinforce the communication with our investors. And also, in parallel, we continue to strengthen our balance sheet position. for the next future to support the growth. When we roll out PowerBoost 2030 in 2027, we do expect we should be able to, in a better position, to provide more additional perspective on our strategy roadmap during our Q4 earnings call onward. With that, let me turn the call to Ken Li, our CFO, to review in more detail about financial results in the quarter.

Ken Li | Chief Financial Officer:

Thank you, Richard, and good afternoon, everyone. Net sales for the third quarter of 2026 were $202.1 million, a decrease of $1.8 million, or 1%, compared with the third quarter of 2025. Sequentially, net sales increased 32.5% from $152.5 million in the second quarter. By end market, power system sales decreased $6.2 million year-over-year, a significant narrowing from the $34.6 million year-over-year decline in the second quarter. The decrease primarily reflects the continued softness in oil and gas, partially offset by higher sales of data center-related products. Transportation sales decreased $1.1 million. Industrial sales increased $5.6 million, primarily reflecting the timing of shipment of certain legacy products. And we do not expect that the level of industrial sales to continue. Those profits was $59.9 million. An increase of $11.2 million, or 23%, compared with the third quarter of 2025. Gold's margin was 29.7%, compared with 23.9% in the prior year period. Sequentially, gold's profits increased 45%, and the gold's margin expanded to 260 base points, down 27.1% in the second quarter. The increase in gross margin compared with the third quarter of 2025 primarily reflects the benefits of the company's operational improvement initiatives at its Wisconsin operations, which have reduced the elevated production costs associated with capacity run-up activities supporting the data center-related applications, as well as a $3.8 million tariff refund recognized as a reduction in cost of sales in the third quarter of 2026, which contributes approximately 188 base points to gross margin, partially offset by an unfavorable year-over-year powder mix resulting from lower oil and gas sales. These initiatives focus on enhancing manufacturing efficiency, streamlining the production process, improving Labor Productivity and Strengthen Cost Controls, resulting in lower manufacturing costs and improved growth margins. Capacity ramp-up activities at the Wisconsin operation are continuing, and the company expects the rate of production costs to persist. Growth margin remains subject to powder mix, production volume, slow parts, and other operational factors. and we do not expect the third quarter growth margin level, which included a tariff refund, to be sustained in the fourth quarter. Research and development expense were $5.1 million in the third quarter, compared with $4.8 million in the prior year period. The increase was primarily driven by higher program expansion to support new programs in 2026. Selling general

and administrative expense was $13.7 million, a decrease of $1.6 million, or 10%, compared with the third quarter of 2025. The decrease referred to certain prior year expense tied to customer relationship improvement initiatives, partially offset by higher cost supporting our data center goals. As a percentage of sales, SGMA, were 6.8% compared with 7.5% in the prior year period. On a gap basis, net income as a percentage of net sales was 14.8% compared with 13.5% in the prior year period and 11.1% in the second quarter. EBITDA, a non-gap measure, was $42.7 million compared with $29.8 million in the prior year period. EBITDA margin was 21.1% compared with 14.6%. On a sequential basis, EBITDA increased 66% from $25.7 million in the second quarter. And EBITDA margin improved 420 base points from 16.9%. EBITDA includes the $3.8 million tariff refund discussed earlier. Operating income was a record $48.9 million, including the $3.8 million tariff refund, an increase of $12.5 million, or 44%, compared with the third quarter of 2025. Operating margin expanded to 20.2% from 13.9%. Interest expense was $1.0 million compared with $1.6 million in the prior year period. Primarily due to low average debt balance, income tax increased 50% to $48.1 million. Income tax expense was $10.2 million. compared with an income tax benefit of $0.9 million in the third quarter of 2025. The prior year period included $7 million, our 30 cents per dilute share, tax benefits from the release of a variation allowance on deferred tax assets. Our effective tax rates was approximately 25.3% in the third quarter. Net income for the third quarter was $29.9 million, or $1.30 per diluted share, compared with $27.6 million, or $1.20 per diluted share, in the third quarter of 2025, which included a $0.30 per diluted share variation allowance release I just mentioned. Turning to cash flow, we generated $40.9 million of operating cash flow in the third quarter, compared with $3.3 million in the prior year period. For the first nine months of 2026, operating cash flow was $116.6 million, compared with $28.7 million in the first nine months of 2025. Capital expenses were $2.6 million in the third quarter. Strong cash flow enabled us to reduce total debt by approximately $34.9 million during the quarter, from $72.6 million at the June 30s to $37.7 million at the September 30s, which includes $35 million of borrowings and our new revolving credit facility. With $72 million of cash and cash equivalents, We ended the quarter with net cash of approximately $34 million, compared with net debt of approximately $55 million at the end of 2025. In October 2026, the company made payments totaling $20 million under its revolving credit agreements. And as of today, the outstanding balance under the revolving credit agreements is $15 million. In September, we closed a new three-year, $220 million committed revolving credit facility. It increased our committed borrowing capacity from $135 million and matures in September, 2029. Borrowings bear interest at so far plus 180 base points, compared with so far plus 260 base points and our private facility. which was paid in full and terminated at the closing. This is an 80 base points reduction in our borrowing spread. We appreciate the support of our banking partners and their confidence in PSI. Our balance sheet is solid and we believe our liquidity position is sufficient to fund the working capital and the capital investments required as larger power systems orders move slow production. Turning to our odds look, based on our current production schedule and the information available today, we are raising our odds look. We now expect the second half 2026 net sales to exceed second half 2025 net sales as larger power system orders move into production and are recognized as revenue. That compares with our prior expectation for second half sales to be approximately in line with the second half of 2025. The timing, volume, and mix of shipments, including customer orders, remain subject to customer scheduling, manufacturing slow parts, supply chain factors, and other variables, including current material availability constraints affecting certain planned fourth quarter deliveries. There can be no assurance that orders were converted to revenue in any particular quarter. Looking ahead to the fourth quarter, gold's margin is expected to decline from the third quarter because the 3.8 million tariff refund, which contributes approximately 188 base points to third quarter gold's margin, is not expected to recur. In addition to that effect, we expect a modest further reduction in gold's margin. Primary reflecting a less favorable product mix. Softness in demand within the oil and gas market is expected to continue. So we expect it to be approximately offset for full year 2026 by higher sales of data center products subject to customer contracting and recognition of the associated revenue by year end. Data Center products generally carry lower growth margin than oil and gas products. We anticipate continued benefits from our operational improvement initiatives, particularly at our Wisconsin facilities. However, continuing ramp-up costs, material availability constraints, production volume, and year-end adjustments, including those arising from inventory counts, may adversely affect growth margin and the results in margin below our current expectation. Finally, we expect to provide additional perspectives on 2027 with our fourth quarter results. With that, I will turn the call back to

Richard.

Richard Hu | Chief Executive Officer:

Thank you, Ken. So finally, in closing with today our statement, I do have three key takeaways here from my side. Firstly, I would say our operational improvement we are delivering. So if you look at our Wisconsin operational team, I would say the team is keeping up with their strong momentum, the good work to continue improving our operational performance and also ramp up the capacity. Bottom line, we are on track with that improvement plan. Secondly, I would say You know, like Ken mentioned before, we do have a strong financial firepower prepared to invest our growth in the future. Today, the growth, you know, a strong cash flow generation and also the newly re-settled credit facility, it does give us a solid financial foundation and also the flexibility to deliver to our customers to invest in the growth initiatives that will define PSI 2.0. Thirdly, I also see, you know, again, we are very well prepared with our balanced and resilient product portfolio and customer mix. So here, please, again, the key word from my side is balanced and resilient, right, when it comes to our product portfolio and customer mix. What that means is we do believe while we are continuously maintaining are traditional foundation of the business industrial oil gas. But in the meanwhile, we also try to work very hard to capture the new incremental data center power growth market as well. So overall, PSI, again, it's a pivotal point today. We are going to evolve from a pure player of the traditional industrial oil gas Mager, becoming a, again, balanced and resilient wider range of the power solution provider. And we are going to work with our journey with two legs. So again, with our traditional industry oil gas, but also the new incremental data center power market in North America. The new power boost 2030 will pave the road for the company and will empower our journey ahead. Thank you, and with that, operator, I think we are ready to open the land for Q&A.

Grace | Conference Call Operator:

Thank you.

Ken Li | Chief Financial Officer:

At this time, we will conduct the question and answer session.

Grace | Conference Call Operator:

As a reminder, to ask a question, you will need to press star 1-1 on your telephone and wait for your name to be announced. To withdraw your question, please press star 1-1 again. Please stand by while we compile the Q&A roster. Our first question comes from the line of Eric Stein of Craig Hallam Capital Group. Your line is now open.

Eric Stein | Analyst, Craig-Hallum Capital Group:

Hi, everyone. Thanks for taking the questions. Hi, Eric. Hello. Maybe just touching on your 26 outlook to start, and I know that it's quite high level and you have increased it, but You know, could you talk a little bit about just the moving pieces there? You've got oil and gas still depressed. The enclosure business, you know, you're still made a lot of progress, but still in ramp up mode. I'm just trying to get a little context as to, you know, what the potential magnitude or the puts and takes could be dictating, you know, how much improvement you could see over the second half of 25.

Ken Li | Chief Financial Officer:

So, Alec, you know, as we mentioned, we raised our outlook for the second half, right? And previously, we say it's a flat versus last year. Now we say the second half will be higher than last year. And just, you know, for the 3Q, you know, it's about 32.5% sales increase versus 2Q. So for oil and gas, I always say it's stabilizing, okay? But definitely we see We expect to see high sales for data center products. And this reflects our current production schedule and also the higher expected shipments of the data center products in the fourth quarter. And the enclosure side business in Wisconsin, we are making improvements in the operation, productivity, and efficiency. Definitely, we see growth for the enclosure side of the business, plus the genset. to support the data center. And I will not give you a kind of, you know, quantitative number, you know, what's the percentage increase, you know, versus last year, but definitely, you know, we expect it will exceed the second half last year.

Eric Stein | Analyst, Craig-Hallum Capital Group:

Okay. Well, maybe now you're just sticking with the Wisconsin operations now that you're, you know, It's basically been a year or a little under a year since you undertook that. You've been making progress and it's been ramping. As you look at that and as you look at where the demand is trending and obviously continues to grow, is there a current view on whether you need more capacity in Wisconsin or given the efficiency improvement that you've made in that current footprint that that's more than sufficient, at least for the time being.

Ken Li | Chief Financial Officer:

So for Wisconsin, as you know, we increased our footprint pretty significantly, right? We used to have like 150,000 square feet. Now it's about 800,000 square feet. And some of the facilities are used for warehouse. And, you know, we see strong demand for our products. And definitely, you know, we think at the current time We don't think we need to lease more facilities to support the demand and we are more focusing on operation excellence improvements to increase our capability to support the high demand for the enclosure business.

Richard Hu | Chief Executive Officer:

Yeah, just building on, this is Richard speaking, Eric, just building on what Ken mentioned. Again, with my 80 days age at the company, but I would agree with what Ken mentioned. I think today the opportunity from Wisconsin InCulture is rather an internal continuously lifting improvement on the operational performance, improvement on the OEE productivity, rather than any additional expansion whatsoever. I think the current team, we are working closely with our InCulture team, monitoring week by week how they are doing are they on track for the capacity ramping up? Are they on track for the productivity improvement? That's exactly where the laser focus is about, Eric.

Eric Stein | Analyst, Craig-Hallum Capital Group:

Okay. Maybe the last one for me, just you mentioned looking at the power gen side, natural gas, and I know to this point it's predominantly been diesel. So what do you kind of think of that, how that market's developing, what the overall opportunity might be?

Richard Hu | Chief Executive Officer:

Yeah, I mean, if I may answer our question, I feel overall we are seeing the, you know, the data center power market remains strong, right? We see over the past maybe 24, 48 hours there has been some bumpy dynamics because of the, you know, middle-term election whatsoever. But nevertheless, we remain bullish with the middle long-term This mega wave of the data center compute demand, right? That's our foundation perspective. With that being said, we do see, I think, a new trend from the industry will be like kind of shifting. The major demand or incremental demand will be a major shifting from, let's say, the standby diesel. Gradually, more and more incremental demand will be shifted to the natural gas prime power or bridge power. That's We hear that from our customer, and we see that's overall a kind of trend today, Eric.

Eric Stein | Analyst, Craig-Hallum Capital Group:

Okay. Thank you.

Richard Hu | Chief Executive Officer:

And by the way, before I forget, that's exactly, if you, you know, look at our engineering organization focus, that's exactly, we are allocating tremendously the incremental resource, developing and engineering the natural gas gen site prepared for this upcoming and incremental growth.

Grace | Conference Call Operator:

Thank you.

Grace | Conference Call Operator:

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Grace | Conference Call Operator:

Okay.

Grace | Conference Call Operator:

I am seeing no further questions at this time, so I would now like to turn the conference call back over to Richard Hu, the CEO, for the closing remarks for this conference today.

Richard Hu | Chief Executive Officer:

All right. Thanks, Grace. And again, from my side and the whole PSI leadership team, I want to thank everybody interested to participate in the Q3 Units call today. As we just mentioned, I think we are excited. We are in the beginning of a Thank you for your participation in today's conference. This does conclude the program and you may now disconnect.