NASDAQ:VICR Q3 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good day, everyone, and welcome to VICOR third quarter 2025 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 participate, you will need to press star 1-1 on your telephone. You will then hear a message advising your hand is raised. To withdraw your question, simply press star 1-1 again. Please note that this conference is being recorded. Now it's my pleasure to turn the call over to the Chief Financial Officer, Jim Schmidt. Please proceed.

Jim Schmidt | Chief Financial Officer:

Thank you. Good afternoon, and welcome to Vicor Corporation's earnings call for the third quarter ended September 30, 2025. I'm Jim Schmidt, Chief Financial Officer, and I am in Andover with Patricio Vinciarelli, Chief Executive Officer, and Phil Davies, Corporate Vice President, Global Sales and Marketing. After the markets closed today, we issued a press release summarizing our financial results, but the three and nine months ended September 30th. This press release has been posted on the investor relations page of our website, www.vicorpower.com. We also filed a form 8K today related to the issuance of this press release. I remind listeners this conference call is being recorded and is the copyrighted property of Vicor Corporation. I also remind you various remarks we make during this call may constitute forward-looking statements for the purposes of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995. Except for historical information contained in this call, the matters discussed on this call, including any statements regarding current and planned products, current and potential customers, potential market opportunities, expected events and announcements, and our capacity expansion, as well as management's expectations for sales growth, spending, and profitability, are forward-looking statements involving risks and uncertainties. In light of these risks and uncertainties, we can offer no assurance that any forward-looking statement will, in fact, prove to be correct. Actual results may differ materially from those explicitly set forth in or implied by any of our remarks today. The risk and uncertainties we face are discussed in item 1A of our 2024 Form 10-K, which we filed with the SEC on March 3, 2025. This document is available via the EDGAR system on the SEC's website. Please note this information provided during this conference call is accurate only as of today, Tuesday, October 21, 2025. I-Corps undertakes no obligation to update any statements, including forward-looking statements made during this call, and you should not rely upon any such statements after the conclusion of this call. The webcast replay of today's call will be available shortly on the investor relations page of our website. I'll now turn to a review of our Q3 financial performance, after which Phil will review recent market developments, and Patricio, Phil, and I will take your questions. In my remarks, I will focus mostly on the sequential quarterly changes for P&L and balance sheet items and refer you to our press release or our upcoming Form 10-Q for additional information. As stated in today's press release, VICOR recorded product revenues and licensing income for the third quarter of $110.4 million, down 21.7% sequentially from the second quarter of 25 total of $141 million, which benefited from a $45 million patent litigation settlement, and up 18.5% in the third quarter of 2024, a total of $93.2 million. Advanced products revenue increased 8.2% sequentially to $65.5 million, and brick products revenue increased 26.6% sequentially to $44.9 million. Shipments to stocking distributors increased 39% sequentially and increased 46% year-over-year. Exports for the third quarter decreased sequentially as a percentage of total revenue to approximately 42.8% from the prior quarter's 51.9%. For Q3, advanced product share of total revenue decreased to 59.3%, compared to 63.1% for the second quarter of 2025, with BRICS product share correspondingly increasing to 40.7% of total revenue. Turning to Q3 gross margin, We recorded a consolidated gross profit margin of 57.5%, a 780 basis point decrease from the prior quarter, primarily due to

the benefit of the $45 million patent litigation settlement in the second quarter. Q3 gross margin increased 840 basis points from the same quarter last year. I'll now turn to Q3 operating expenses. Total operating expense decreased 8.9% sequentially from the second quarter of 2025 to $42.6 million. The sequential decrease was primarily due to a decrease in selling, general, and administrative expenses primarily attributable to $5.1 million of incentive legal fees associated with the patent litigation settlement in the second quarter. The amounts of total equity-based compensation expense for Q3 included in cost of goods, SG&A, and R&D was $1,024,000, $2,117,000, and $1,221,000, respectively, totaling approximately $4.4 million. Turning to income taxes, we recorded a tax benefit for Q3 of approximately $5 million, representing an effective tax rate for the quarter of negative 21.4%. The company's tax provision and effective tax rate for the quarter ended September 30, 2025, was positively impacted by the one big beautiful bill act back during the quarter, which resulted in the beneficial immediate expensing of domestic research and development investment. That income for Q3 totaled $28.3 million. got diluted income per share with 63 cents, based on a fully diluted share count of 44,930,000 shares, reduced by share repurchases within the quarter. Turning to our cash flow and balance sheet, cash and cash equivalents totaled $362.4 million at Q3, an increase of $23.8 million sequentially, and net of approximately $15.6 million in share purchases during the quarter. Accounts receivable, net of reserves, totaled $53.3 million at quarter end, but we have those for trade receivables at 38 days. Inventories, net of reserves, decreased 3.3% sequentially to $92.3 million. Annualized inventory returns were 1.9, Operating cash flow totaled $38.5 million per quarter. Capital expenditures for Q3 totaled $4 million. We entered the quarter with a construction and progress balance primarily for manufacturing equipment of approximately $8.3 million, and with approximately $2.4 million remaining to be spent. I'll now address bookings and backlog. Q3 book to build came in at 0.98, and one-year backlog decreased 1.5% from the prior quarter, closing at $152.8 million. As we discussed during the strategy update at our annual meeting in June, Vicor's IP licensing is a high-margin, high-growth business. In Q3, we reached a licensing revenue run rate of nearly $90 million per year. Over the next two years, we expect to substantially expand our licensing business, as Vicor IP is, will be, used in most AI applications, necessitating additional licenses, renewal of existing licenses, more expansion of their school. At the core of our IP licensing business, we have a power module business that leverages our investment in the first chip foundry based here in Andover. The challenge of bringing this fab with its unique patented processes online is now behind us. with yields and cycle times at world-class levels. While fab utilization remains low, as reflected in low product margins due to underabsorption, we expect that performance levels achieved by fifth-generation chips and second-generation VPD will soon bring about substantial capacity utilization. As we said on last quarter's earnings call, 2025 is a year of uncertainty and opportunity. As of today, the quarterly and annual outcome in terms of top line and bottom line, point to record results, profitability, and EPS in 2025. Given uncertainty in the timing of additional license deals, we are unable to provide quarterly guidance. With that, Phil will provide an overview of recent market developments, and then Patricio, Phil, and I will take your questions. I ask that you limit yourselves to one question and a related follow-up. so that we can respond to as many of you as possible in the limited time available. If you have more than one topic to address, please get back in the queue. Bill?

Phil Davies | Corporate Vice President, Global Sales and Marketing:

Thank you, Jim. My remarks this quarter are focused on data center and AI power system requirements and the market opportunity for Vicos chips and second generation vertical power delivery. To support advances in AI-capable data centers, and specialized AI factories, power delivery networks need to supply hundreds of kilowatts per rack and thousands of amperes for every GPU, TPU, and network processor. Advances in power density measured in kilowatts per cubic inch at the rack level and advances in current density measured in amperes per square millimeter at the processor package level are gated by conventional power distribution architectures, such as the intermediate bus architecture, or IBA, and voltage regulators, such as VRs and IVRs. Performance limitations of conventional power system technologies using IBA, VRs, and IVRs are affecting critical AI metrics of tokens per second and latency. as OEMs and hyperscalers have to throttle back processor speeds gated by significantly limited power system technology. Unable to meet performance

expectations, power system engineers at leading OEMs and hyperscalers are working in opposite and inconsistent directions. To provide efficient power distribution within racks, the data center, or AI factory, they are raising power distribution voltages to 800 volts. However, to power the processor's socket at a core voltage below 1 volts, they are relying on VRs and IVRs requiring an intermediate bus voltage as low as 1.8 volts. Unlike 800 volts, power distribution at 1.8 volts is inefficient and requires low output voltage bus converters that are also inefficient. Raising the intermediate bus voltage improved bus converter and power distribution efficiency, but it would do so at the expense of VR or IVR efficiency and current density. In other words, VRs and IVRs suffer from an inherent tension between conflicting requirements. It is a game of picking your poison without achieving adequate performance. Not surprisingly, VRs and IVRs are current density limited to 1.5 amps per square millimeter, while GPU and TPU roadmaps call for current densities above 3 amps per square millimeter. Because of low current density, first generation vertical power delivery using VRs necessitates complex stacked assemblies whose mechanical and thermal challenges are compounded by bus converters having to feed kilowatts of power at a low, inefficient bus voltage. Enter VICO's second generation VPD, enabled by VICO's fifth generation current multiplier technology, with up to 24 times higher current gain than VRs and IVRs in a 1.5 millimeter thin, thermally adept package. with up to 5 amperes per square millimeter peak current density. Thanks to this high current density, VICO's Gen 5 current multipliers avoid the need for a VPD gearbox, including a stacked layer of capacitors, enabling VPD solutions, which are much thinner and lighter, easier to cool, inherently more robust, and far more scalable. These figures of merit could not have been achieved without VICO's unique vision and its ability to overcome technical barriers through innovation and invention, which are also reflected in its first $1 billion chip fab. I am happy to report that our Gen 5 vertical power delivery solution for VICO's lead customer has met target specifications and is now progressing to a Q1 2026 production launch. Engagement is starting with selected customers comprising a hyperscaler and OEMs, who informed us that WICO's second generation VPD is the only solution that can meet their processor requirements. In view of these developments, our confidence in our business strategy of innovation, customer focus, and market focus is higher than it has ever been. We're now ready for your questions.

Operator | Conference Operator:

Thank you so much. And as a reminder, to ask a question, simply press star 11 on your telephone and wait for your name to be announced.

Operator | Conference Operator:

To remove yourself, press star 11 again. Please stand by while we compile the Q&A roster. And our first question comes from the line of Quinn Bolton with Needham and Company.

Operator | Conference Operator:

Please proceed.

Quinn Bolton | Analyst, Needham & Company:

Hey, Patricia, Phil, and Jim, congratulations on the nice results, and especially on the IP licensing side of the business. I guess I wanted to start there on IP licensing. Royalty revenue more than doubled quarter on quarter, and I'm just wondering if you can – Give us a little bit more detail as to what drove that increase. Did you guys sign additional licenses in the quarter that generated higher royalty? Were you able to come to terms with one of your existing licensees about royalty payments on their latest generation architecture just Any color you can give us on what drove that increase would be super helpful. And I guess the follow-up question is, would you expect that royalty revenue to continue to trend up, or were there perhaps some

back-quarter payments included in the third-quarter licensing?

Patricio Vinciarelli | Chief Executive Officer:

So, to your point, we're able to come to a compromise and accommodation with the an existing licensee who took an additional license for a time period of two years. Some of that two-year timeframe, to your point, is in the past. So, within the quarter, we recorded the payment that includes a catch-up for a few months of the year. There's going to be recurring payments every quarter. And in terms of answering your question as to where licensing income is going, I think as we commented in the press release yesterday, our licensing income is going up substantially, as Jim reported in his Repairing marks, we expect licensing income to grow at a rate that could be of the order of 50% a year. We have line of sight to doubling our licensing business within a couple of years based on a combination of factors and actions that we are preparing to execute.

Quinn Bolton | Analyst, Needham & Company:

That's great. Thank you, Patricio. I guess the second question for me just on the licensing or the IP-related royalty, I believe in the past you've said that certain licensees or certain licenses that you grant may also include product revenue such as your MBM modules as part of the license agreement. In the press release yesterday where you talked about the $300 million of IP-related revenue Is that just the litigation settlement plus the royalty income, or are you including some portion of MBM or product sales in that 300 related to license agreements?

Patricio Vinciarelli | Chief Executive Officer:

In that figure, we're including some of the module business that is in effect related to the licensing deals. So in terms of gauging the licensing business by itself without including the module component, I think we can point to the $90 million run rate achieved in the third quarter as the current level of, if you will, the licensing business component of Vigor, which at this point in time, I will submit should no longer be viewed as just a power model mega, but should be viewed in terms of assessing its value as the combination of two businesses, a licensing business that is growing very rapidly. It's got some lumpiness to it, got a lot of opportunities upside on the one end and a module business supported by one billion dollar plus fab one of its kind in the universe that's not been growing but it will be going based on the performance levels achieved with second-generation VPD, which, as Phil reported in his prepared remarks, fits a need, fills a void that is very much a subject of concern and limitation in the AR world.

Quinn Bolton | Analyst, Needham & Company:

Excellent. I'll get back to you. Thank you. Thank you.

Operator | Conference Operator:

Thank you. Our next question is from John Tangontang with CJS Securities. Please proceed.

John Tangontang | Analyst, CJS Securities:

Hi, good afternoon, and thank you for taking my questions, and congrats on the strength in the IP and licensing business. I was wondering if you could talk a little bit more about the strength you saw in the quarter. Was it only from one customer that you came to terms with that caused a sequential jump, or was

there other licensees that you signed up and other royalty streams related to that?

Patricio Vinciarelli | Chief Executive Officer:

So... I guess as we look back at what has come about this year, on the eve of the foundation from the International Trade Commission, our first ITC case, which has resulted in exclusion order. Prior to that, we signed up a substantial hyperscaler. So that was in general. We then settled a dispute with one of the respondents in the ITC case. So that came into a second quarter performance. And the third quarter, we, as I mentioned earlier, entered into a second license with an existing licensee that still has a first license. So that's been the progression to

John Tangontang | Analyst, CJS Securities:

Okay, great. Thank you. That's helpful. And then I was wondering if you could talk just about bookings for the next quarter and a couple quarters. You had a nice step up in the book to bill, just backing into it. Is that just the catch-up from the tariff headwind that you faced, or is there more organic demand there underlying that?

Patricio Vinciarelli | Chief Executive Officer:

Well, so depending on end markets, there is a different level of – activity. Phil can tell you more about that in a moment. But, you know, from my perspective, we've been allowed in terms of growth in product bookings and shipments for a combination of reasons which effectively address the delivery of new generation components and vertical power delivery. So as suggested in Jim's earlier remarks, we expect to fill the FAB. As we do that and no longer suffer from significant under-absorption, having in effect put a lot of capacity in place at the suppression of demand, we're going to see all these parameters know substantially, starting with bookings, backlog, and the top line from call revenues.

Phil Davies | Corporate Vice President, Global Sales and Marketing:

Yeah, John, as I mentioned on the last call, I see the base business, as we call it, industrial aerospace and defense. I mentioned that I see that strengthening as we go through the year, and that's what happened in Q3.

John Tangontang | Analyst, CJS Securities:

Got it. That's helpful. Thank you. And I'll jump back in queue.

Operator | Conference Operator:

Thank you. Our next question comes from Richard Shannon with Greg Hallam Capital Group. Please proceed.

Richard Shannon | Analyst, Greg Hallam Capital Group:

Well, hi, guys. Thanks for taking a couple of my questions as well. I think I'll address kind of a two-part question here on the IT revenues here. First of all, I'd love to get a sense here of how many customers do you have licensed now? And I certainly understand that one of them has two different licenses now. how many that you might expect here over the next couple of years or so. And then last call, you talked about the

potential. Actually, I think you talked about this in the shareholders meeting as well, but the potential of seeing as much as $400 million worth of return on litigation investment through the end of 26. You didn't use that language today, although previous answer from Petruccio suggested that's the case. We just want to confirm that that's possible.

Patricio Vinciarelli | Chief Executive Officer:

Okay, let me start with the last one and go back to the first. So the progress made as we came through the first, second, and third quarter of this year with licensing deals done in every quarter, our expectation with respect to total returns from what we call LIGO 1, our first IDC action, has been growing, and we've been able to raise the target for returns, not just today, but through the end of next year and after that. One should understand that the existing exclusion order will remain in effect for the life of the parents. It will affect, and this is a very important point, not just those parties which were, in effect, directly involved in that case, but because of dependencies from contract manufacturers that were respondents in that case, it will affect, for the foreseeable future, any other OEM and hyperscaler that is dependent on those infringing products. Let me go to the other part of your question with respect to how many licensees that we signed up and how many do we expect to sign up. First by addressing the second part. We expect in the next couple of years to sign up each OEM and each hyperscaler in the AI space and data center space. We know that's not going to be easy. But given our visibility with respect to the power road maps, the existing solutions, the coverage of our comprehensive tank portfolio over various aspects of bus conversion, obviously bus conversion over a wide range of voltages all the way to the point of load with respect to third generation VPD, which VIGOR invented but chose not to practice because of its limitations. I don't see any IP Taylor or OEM with, in effect, a set of DR solution being able to do without VIGOR power system IP. We have very well thought out, and obviously it's been very effective strategy. to assert IP, protect our innovations, and get compensated for it. And I see that continuing to stand and involving the entire marketplace of OEMs and IBISCALs.

Richard Shannon | Analyst, Greg Hallam Capital Group:

Okay, great. Thanks for that detailed answer, Patricio. I want to follow up on a response to a prior question here about engagement with second-gen VPD here. And I think if I caught it correctly, you talked about being engaged with an OEM and a hyperscaler. I wonder if you can provide any more details on how long this has been going on, applications that you're working with, and how long you expect the qualification process to last. Thank you.

Phil Davies | Corporate Vice President, Global Sales and Marketing:

Hi, Richard. It's Phil. So I'll take that one. So we have been very, very laser focused on our lead customer, right, as we brought the technology through. And now we're very close, you know, Q1 of next year to production. So we have been talking to pretty much everybody in the industry. But what we've done now in terms of the second phase of our VPD launch is to really focus in on two or three companies, Hyperscaler and a couple of OEMs, that offer major, major growth. They have huge potentials because of their scale in terms of both the hyperscaler and their reach as OEM sort of chip manufacturers. And we've been talking to them for a while, and they have obviously been working with others in the industry, looking at their VPD solutions, infringing VPD solutions, albeit. they have not been able to meet the specifications that they've put forward to the competitors, so-called competitors of Vicor. So they're very, very excited now that we're ready to engage. And Q4, we'll see that happen in earnest. And in terms of when I believe we will get to market in terms of sort of pre-production, it's probably the second half of next year and towards the end of Q3 going into Q4.

Richard Shannon | Analyst, Greg Hallam Capital Group:

Great. Thank you, guys.

Operator | Conference Operator:

Thank you. Our next question is from John Dillon with DMB Capital. Please proceed.

John Dillon | Analyst, DMB Capital:

Hi, guys. Congratulations. It's really good news all around. Phil, I've got a follow-up question to Richard, and that's the second-gen VPD deliveries to your lead customer. Have you achieved the 133% solution yet, or when do you expect it?

Patricio Vinciarelli | Chief Executive Officer:

I'll take that one. So to date, we deliver units to the regional target. We're working on the 130 percent. We just taped out a device that will enable us to get there. We're going to have initial samples of that device in January. So we're on our way to the SESH goal of 130%, but thus far we've met the goal of the regional current requirement.

Phil Davies | Corporate Vice President, Global Sales and Marketing:

John, let me just add to that that even the 100% goal that we've hit with our lead customer is significant enough to get design wins with these other customers I'm talking about. So we're so far ahead even of the competition that you know, they're looking at Vypal because it's not just current density. I mentioned, you know, the thinness of the package. They're also telling us they need solutions below three millimeters in height. And no one is able to do that. They're all at about five millimeters. So that's a critical spec as well. We hit that, you know, 50% smaller than what they want. So, you know, again, they're very excited. And what we've got is good enough to get going. And then we'll just up the bar as we bring the 33% through.

Patricio Vinciarelli | Chief Executive Officer:

Let me add a comment to that regarding thickness, right? So VR solutions with gearboxes and so on and so forth are quite thick, several millimeters, quite clumsy, thermally inept as opposed to that, very difficult to thermally manage, very costly, not inherently reliable. There are IVRs which are thinner and are capable of up to about 1.5 amps per square millimeter current density. But they're challenging in other respects, which is in order to achieve the level of current density, they need to be supplied with 1.8 volt, which at high power levels implies a huge cost. the need to get delivered at such a low voltage, very close to the point of load. And that was one of the points that Shilin's prepared remarks made. So the perigament for any customer seeking a VPD solution and looking at conventional approaches ranging from traditional VRs to IVRs, which is, in a way, renewed attempt at that which Intel did with Fiverr many, many, many years ago, right, with very mixed results. They have, relative to one another, certain advantages and disadvantages. In particular, the VRs are typically powered nowadays from 5 or 6 volts, so power delivery to a VR is not quite as challenged as 1.8 volt. But then the VRs are thicker in terms of the whole solution. They must run at a much lower frequency. They put you this angle. So that's Phil's point with respect to pick your poison. If you want to raise the intermediate bus voltage in order to get somewhat more efficient power distribution, your challenge in a voltage regulator, which works on an averaging principle, is dividing a voltage by fundamentally mixing that voltage source with ground. And as you raise the level of the source, as the upper voltage gets close to

ground, you have to operate with a very low duty cycle, which is inefficient. Or in the alternative, you make the duty cycle efficient, 50% or so, by going to an IVR, but then the problem is you can't efficiently feed the IVR. And fundamentally, the issue is that whether it's VR or IVRs, they don't have car gain. And they insert a loss in the case of IVRs, which is upwards of 10%. And for that loss, you only get a factor of two carbon, which is nothing if the GPU, TPU needs thousands of amperes. I think it's been noted that the typical house power inlet is 150 amps. Obviously, it's a much higher voltage that you can power a whole house. The challenges of distributing a thousand amp at 1.8 volt are a significant handicap with respect to IVR. So they all have their trade-offs. They're all fundamentally constrained by the same laws of physics, which lacking car gain make them somewhat difficult handicap with respect to keeping up with processor roadmaps and processor current density requirements.

John Dillon | Analyst, DMB Capital:

Yeah, I get that. Because of Ohm's law, the low voltage is really going to be a handicap for them, and they're going to have incredible transmission losses and extra heat that they've got to remove. So I get that. It's good. That's a great explanation.

Patricio Vinciarelli | Chief Executive Officer:

It's not just Ohm's law. It's Kirchhoff's laws. There's a few laws at play. But the bottom line is they're up against those of physics, which are not changing, right? In Italy, they can make a tradeoff, make a different tradeoff. They gain in one respect, but then they lose in another. And that's the dilemma that is ongoing with respect to that approach to powering AI.

John Dillon | Analyst, DMB Capital:

Got it. My follow up question is pretty simple. It's um, I thought I heard earlier that you said production quantities in q1 for your lead customer. But then later on, I heard q3 or q4. So I'm wondering if you just clarify, I don't think I've heard that correctly.

Patricio Vinciarelli | Chief Executive Officer:

I think we're talking about different caps. Sorry, john.

Phil Davies | Corporate Vice President, Global Sales and Marketing:

Yeah, yeah. So the customer is q1 john. And I was talking about other customers next year in the second half, end of q3 q4 for other customers. for production.

John Dillon | Analyst, DMB Capital:

How are you getting from prototype to production so quickly? That's incredible. I mean, that's really fast.

Patricio Vinciarelli | Chief Executive Officer:

Okay, well, so the problem metrics with respect to current multipliers at higher or lower current levels is extremely scalable. We're going to have complete makeup, ready for sampling. And then when it comes to the adoption timeline, it's to a high degree accelerated by the need for a solution lacking acceptable alternative solution based on conventional technology, again, VRs, IVRs, and an IBA architecture. That's handicapping solutions. I can tell you that even though subsequent generations of GPU have used micro technology, at least for bus conversion, now then, as in terms of its power system, deliver the requisite power car level that the Citigon team had And this is a compromise that is, you know, very challenging, clearly, particularly as the AI space gets, you know, more competitive with obviously some increase in credible threats of competitive alternatives.

Phil Davies | Corporate Vice President, Global Sales and Marketing:

Yeah, John, I'd also like to say there's lots of stuff going on in parallel. There's nothing like having your own vertically integrated chip fab. We are in full control with short cycle times, right? So there's a lot of other things going into that that are advantageous for us getting to production in QA next year.

John Dillon | Analyst, DMB Capital:

Congratulations. This is great news. Great job, guys.

Jim Schmidt | Chief Financial Officer:

I'd just like to add to what Phil has said, which is, you know, the cycle time, and it might be an opportune time to mention how different VICOR is now compared to a couple of years ago. So we have an internalized fab. We have very, very short cycle times. We have great yield, uh, fantastic inventory control, quality control, and on time delivery. All the metrics that you care about operationally are really now in a place that we're very, very happy about. Um, it's a big deal for Vicor. And I think that what one point I made in my prepared regards under absorption on the product revenue side is suppressing what would otherwise even be higher margins for the company. We make great standard margins because the pricing captures value. But because we're not loading the factory, we're absorbing under absorption variances. So that's a future state for us to all be very, you know, optimistic about.

John Dillon | Analyst, DMB Capital:

Congratulations. I'll get back in the queue. Great, great job, guys. Great job.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Patrick Connors with Ajax Capital. Please proceed.

Patrick Connors | Analyst, Ajax Capital:

Hi, guys. Congratulations on a good quarter. I know defending your IP has been a slugfest, so congratulations, and congratulations on the hard work. As you go into production in Q1 for your lead customer and a potential large hyperscaler on the horizon, are there any concerns about deploying a second source? Have you had any pushback from your current clients or future clients about not having a second source, and how are you addressing that?

Patricio Vinciarelli | Chief Executive Officer:

So that's always been an issue and will remain an issue. We have, you know, ways to deal with that. Obviously, a licensing practice provides opportunity for multi-sourcing, but in and of itself doesn't give rise to the know-how and core technology. It is just fundamentally a covenant not to sue, a license that ensures that the supply chain is not going to be interrupted by an injunction or an exclusion order. But we're open as needed to different business arrangements, including fabs that could be owned with shared ownership. and other ways to accomplish what you identified as an issue that has been there and will remain there. So we are prepared to deal with these needs. We understand, given the pace of growth in AI, that there is a need for multisourcing. have total dependency on any one source, and we're prepared to enable that through the licensing model, which provides flexibility with respect to the IP, as well as with respect to the FAP that could be replicated in other parts of the world with the lead time of about a year.

Patrick Connors | Analyst, Ajax Capital:

Okay. Uh, one quick question is you quoted 98% yields right now. Is that at size right now? I mean, I don't know how you measure that. Can you give us some kind of clue as would that satisfy your lead customer?

Patricio Vinciarelli | Chief Executive Officer:

Oh yeah, that's a very good deal in this, uh, in this industry. Uh, it's a record deal for us. It's great deal. Uh, to be clear that that's for, particular model that we make upwards of $100,000 a month. So that will not be applicable to devices that are not in mass production.

Patrick Connors | Analyst, Ajax Capital:

Okay. Thank you, guys. Congratulations. Thank you.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Quinn Bolton with Needham & Company. Please proceed.

Quinn Bolton | Analyst, Needham & Company:

I just wanted to come back on the licensing or the royalty revenue today. Can you give us a sense, is all of the licensing revenue today just from your power module patents, or have you started on the two or the licenses you have in hand? Does that include vertical power or not?

Patricio Vinciarelli | Chief Executive Officer:

It does not include vertical power. It only stems from the assertion of IP to a few certain patterns that we have to MBM technology. We have other patterns to MBMs. We have lots of patterns with respect to VPD, power package. None of these have been asserted yet. Now, as I mentioned earlier, the first lead or the first linear exclusion order with respect to those paths or how to change is going to be enforced for many, many years. And it's going to be enforced more broadly as time goes on. And we identify the customs, US customs, infringing products manufactured by contract manufacturers, particularly the ones that were respondents in our first ITC case. And again, that can affect other customers of those contract manufacturers. And in fact, it's one of these kinds of developments that led us to the license that was entered into in the third quarter. But all

of the actions have been revolving around the very first case.

Quinn Bolton | Analyst, Needham & Company:

The very first case. So, short summary, you will have another opportunity to go back to customers to license the vertical power at the point you choose to cert those patents in the future.

Patricio Vinciarelli | Chief Executive Officer:

Absolutely. The hyperscalers, OEMs that we've been communicating with over time, in some cases for three years or more, they understand how a licensing practice works. The cost of a license in terms of royalty rates starts at a level that is very attractive relative to taking a license at the letter stage. And we have seven stages ranging from a stage where there's been no complaints filed, no litigation, the rates are attractive, to what we call stage seven, which is after there's an injunction or customs, a stopped importation of infringing products into the U.S. There is every incentive for OEMs and hyperscalers to take a license proactively, right, as opposed to playing a game of catch me if you can. Because if they play that game, I think we already demonstrated that we'll catch them. And that's going to be very, very expensive.

Quinn Bolton | Analyst, Needham & Company:

Got it. And then a quick one for Jim. Jim, you mentioned the one big beautiful bill caused a pretty nice tax benefit. In the third quarter, can you give us some assistance on what we should be thinking about for future tax rates in Q4 heading into next year? I think previously it may have been in the mid-teens percentage rate, but any help you can give us with the tax rate given the one big beautiful bill?

Jim Schmidt | Chief Financial Officer:

Yep. So, Quinn, I can't really say much about next year right now, but I can tell you that fourth quarter would be low single digits, your expectation. Okay.

Quinn Bolton | Analyst, Needham & Company:

Thank you, Jim.

Operator | Conference Operator:

Thank you. And as a reminder, ladies and gentlemen, if you do have a question, simply press star 1-1 to get in the queue. And we have a question from the line of Mr. Neil Gore. Please proceed.

Neil Gore | Analyst:

Hello. Great quarter, guys. On your licensing deals, are they similar to most licensing deals where you get money upfront

Patricio Vinciarelli | Chief Executive Officer:

granting the license then on an ongoing basis you get a small percentage of the sales we actually don't look for money upfront obviously we have all cash and one of the the cash reserves are going even though we've been buying stock so we make it easy for OEMs and hyperscalers to take a license they don't have to put up any money upfront. They don't even have to commit to using the license. They are free to, in effect, pay as you go in one licensing structure, depending on the use they make of the technology.

Neil Gore | Analyst:

Okay, and the companies that have been licensing from you for more than a year, is their revenue growing on a regular basis, or is it pretty flat?

Patricio Vinciarelli | Chief Executive Officer:

I think we have examples of both. We have one example with an hyperscaler where the royalty rates increase at about 3% per month. We have another example where the royalty is fixed by quarter for a number of quarters. This reflects in effect the fact that Depending on the OEM, the upper scale, the issues might be different. We're very flexible, not rigid with respect to, in fact, enabling what works best for that particular licensee to be turned into a license.

Neil Gore | Analyst:

Okay, and one last thing. About two years ago, you said you're planning to be a billion-dollar company. Most companies have five-year plans. Are you on track to achieve what your plan was initially set out for within the time frame that you thought you were going to achieve it?

Patricio Vinciarelli | Chief Executive Officer:

Yeah, so we are almost half of the way there. This year is going to be quite good. You can extrapolate to the end of the year at this point given the track record of the last three quarters. I think it's suggested in answer to questions going back to maybe about this time last year when I think I stuck my neck out indicating that this was going to be a record year for Vigo. It's coming out, as Jim summarized earlier, to be a record year in all respects, top line, bottom line, EPS. But we are not quite half of the way there to one billion. So what's going to get us there? Well, filling the FAB by itself would get us just on product revenues past one billion. Because actually the capacity of that FAB has been growing up particularly with the fifth generation products, second generation VPD, devices, which being thinner, have faster cycle time and higher capacity per pound through the FAB. So, needless to say, if we were to fill the FAB, it would be, just on the product revenues, beyond one billion. The licensing business, as of the snapshot in the third quarter, is at a 90 million rate You know, I can't tell you what's going to happen next quarter or the quarter after that. There could be additional licensing deals that might not yet happen. But I can tell you that there's going to be a lot more over the next couple of years as we get additional exclusion orders and the industry gets to realize that if products use Viagra IP, they need to have a license so those products aren't going to ship. So the licensing business by itself, as suggested earlier, from 90 can get to a couple hundred million dollars. We have line of sight to that within a couple of years. And that's not the end of that growth opportunity. I think it can go well beyond that level.

Neil Gore | Analyst:

Thank you very much.

Operator | Conference Operator:

Thank you. And we have a question from the line of John Dillon with DMV Capital. Please proceed.

John Dillon | Analyst, DMB Capital:

Yes. Thank you again for taking this call. Guys, I've seen reports that future AI manufacturers, including NVIDIA, are planning processors that will require 6,000 to 7,000 amps. And you're saying that a lot of the power supply companies are having issues with 2,000 amps. So my question is, is there anything on the horizon that can power a 6,000 amp processor besides Viacor?

Patricio Vinciarelli | Chief Executive Officer:

Well, I frankly believe that even at the 2,000 amp level, VRs and IVRs and bus converters delivering that kind of power, kilowatts, either 5-6 volts, in the case of IVRs, 1.8 volts, Those things are fundamentally challenged. I think if we look at GPU companies, they haven't been able to go to VPD because it's really not practical, it's not mature. Because it's first generation VPD and it's got the complexities that Phil summarized in his remarks. It requires lots of layers, you know, how to put together, how to assemble on the back of processor, heat getting trapped, lots of issues. Even at the level of a thousandth, never mind 2,000 or more. Now, there is one large hyperscale that has gone very far with respect to the DPD, but again, suffering from the same kinds of challenges and difficulty seeing how the GPU-TPU roadmap in future years is going to be supported by power system capabilities that are readily available from all the VCS sources.

John Dillon | Analyst, DMB Capital:

Sounds like there's nothing out there that will be able to handle 6000 amps.

Patricio Vinciarelli | Chief Executive Officer:

So it all depends, you know, on this has got to be put in into perspective, right for it to be meaningful, because to be clear, with with our lead customer, We've been supplying tens of thousands of amperes for years, but that's a welfare-scale engine. So 6,000 amps for a welfare-scale engine would be solving it. We're now at the level of 50,000 amps, and the future is going to be higher than that. It's all relative, right? All these things. There's nothing very magic about 1,000 apps, 2,000 apps, or 6,000 apps, or 50,000 apps. I think the more relevant metric, right, the figure of merit that matters is the current density. And relating to that, the current multiplication. What you need in order not to get in the way of AI processor roadmaps is is you have to have very high current density, i.e. several amps per square millimeter and rising, number one. And you have to have high current multiplication, because if you don't have high current multiplication, then you're stuck at the entry point to the point of load processor, which is fundamentally the predicament of IVRs.

John Dillon | Analyst, DMB Capital:

Yeah, and that's my point. It sounds like Vicor is the only one who's going to be able to handle these. new processes that are going to be running at these kind of anchors.

Patricio Vinciarelli | Chief Executive Officer:

I'm not good enough to know. It's always dangerous to make absolute statements, right?

John Dillon | Analyst, DMB Capital:

I understand. We don't know what we don't know.

Patricio Vinciarelli | Chief Executive Officer:

I'm not aware of any other company that can address the roadmap requirements in terms of high enough current density with enough current multiplication. Vigor is the only company with that technology, pioneer of that, heavily patented, many, many different perspectives. And it just began to show the industry that anybody chasing a truck is going to have serious problems. You might recall me saying in the past that a time portfolio is landmine. We began to see the effect of people stepping over the perimeter of that land minefield.

John Dillon | Analyst, DMB Capital:

I get it. I get it. And then, Phil, you had answered a question about the NBM sales as a result of the licensing contracts with their incentives to take product. What I was wondering is, are we going to start seeing an increase in NBM sales in the next quarter or two?

Phil Davies | Corporate Vice President, Global Sales and Marketing:

Well, I think that, you know, the NBMs that we have are, you know, super for a lot of different applications. But the focus for us, John, is really, as Patricio pointed out, bus converters are useful in a number of applications, but the future isn't bus converters. We'll sell a lot of them going forward, but it's really about VPD and coming in 48 volts to our VPD solution and current multiplication at the point of load, as Patricio just explained. That's the future. That's the growth for the company.

John Dillon | Analyst, DMB Capital:

I get that, but I was just wondering, as a result of these contracts, do you expect to see some NBM increases in NBM sales on the next couple of years?

Patricio Vinciarelli | Chief Executive Officer:

Yeah, we'll see that. Yeah, we'll see some sales. It feels fine. It's nice, but it's not what they call the salad.

John Dillon | Analyst, DMB Capital:

Totally get it. Great job. Great job, guys. Thank you.

Operator | Conference Operator:

Thank you. And, ladies and gentlemen, with that, we conclude our Q&A session and conference for today. Thank you all for participating. And you may now disconnect. Everyone have a great day.