NASDAQ:VICR Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good day, and thank you for standing by. Welcome to the VICOR first quarter 2026 earnings conference call. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question and answer session. To ask a question during the session, you will need to press star 11 on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press star 11 again. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Jim Schmidt, Chief Financial Officer. Please go ahead.

Jim Schmidt | Chief Financial Officer:

Thank you. Good morning, and welcome to Vicor Corporation's earnings call for the first quarter ended March 31, 2026. I'm Jim Schmidt, Chief Financial Officer, and I'm in Andover with Patrizio Vinciarelli, Chief Executive Officer, and Phil Davies, Corporate Vice President, Global Sales and Marketing. Earlier this morning, we issued a press release summarizing our financial results for the three months ended March 31, 2026. 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 risk and uncertainties. In light of these risk 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 2025 Form 10-K, which we filed with the SEC on March 2, 2026. This document is available via the EDGAR system on the SEC's website. Please note the information provided during this conference call is accurate only as of today, Tuesday, April 21, 2026. VICE Corps undertakes no obligation to update any statements, including forward-looking statements, made during this call, and you should not rely upon such statements after the conclusion of this call. A 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 Q1 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, BICOR recorded product and royalty revenue for the first quarter of $113 million, up 5.3% sequentially from the fourth quarter of 2025, total of $107.3 million, and up 20.2% from the first quarter of 2025, total of $94 million. Advanced products revenue increased 3.7% sequentially to $64.9 million. And brick products revenue increased 7.7% sequentially to $48 million. Shipments to stocking distributors increased 0.5% sequentially and increased 63.6% year over year. Exports for the first quarter decreased sequentially as a percentage of total revenue to approximately 48.9% from the prior quarter's 49.3%. For Q1, advanced product share of total revenue decreased to 57.5%, compared to 58.4% for the fourth quarter of 2025, with brick product share correspondingly increasing to 42.5% of total revenue. Turning to Q1 gross margin, we recorded a consolidated gross profit margin of 55.2%, a 20 basis point decrease from the prior quarter, Q1 gross margin increased 800 basis points from the same quarter last year. I'll now turn to Q1 operating expenses. Total

operating expense increased 4% sequentially from the fourth quarter of 2025 to $45.5 million. This increase included higher legal expenses related to enforcement of RIP. The amounts of total equity-based compensation expense for Q1 included in cost of goods, SG&A, and R&D was $836,000, $1,959,000, and $1,057,000, respectively, totaling approximately $3.9 million. Turning to income taxes, we recorded a tax benefit for Q1 of approximately $0.3 million, representing an effective tax rate for the quarter of minus 1.3%. The company's tax provision and effective tax rate for the quarter ended March 31, 2026, was positively impacted by stock options exercised in the quarter. Net income for Q1 totaled $20.7 million. GAAP diluted income per share was 44 cents, based on a fully diluted share count of 47,254,000 shares. Turning to our cash flow and balance sheet, Cash equivalents totaled $404.2 million at Q1, an increase of $1.4 million sequentially. Accounts receivable net of reserves totaled $67.4 million at quarter end, with DSOs for trade receivables at 42 days. Inventories net of reserves increased 3.8 percent sequentially to $94.8 million. Annualized inventory turns were 2.1, Cash flow used for operating activities totaled $3.9 million for the quarter, which was net of a litigation settlement payment of $28.6 million. Capital expenditures for Q1 totaled $12.4 million. We ended the quarter with a construction and progress balance primarily for manufacturing equipment of approximately $10.7 million, and with approximately $33.9 million remaining to be spent. I'll now address bookings and backlog. Q1 book to bill came in above two, and one year backlog increased 70% from the prior quarter, closing at $300.6 million. 2026 is a year of great opportunity for VICOR. We expect Q2 revenues of nearly $126 million, and 2026 revenues of nearly $570 million. This guidance is based on conservative assumptions about our licensing practice. specifically that we will not enter into new licensing agreements until our second ITC case gets to its final determination in 2027. Additional exclusion orders further restricting importation of infringing computing systems will provide motivation to close new licensing deals on the right terms. Along with revenue growth in 2026, we expect margin expansion. Phil?

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

Thank you, Jim. With the book to bill above two, Q1 bookings were strong across our high-performance computing, industrial, and aerospace and defense markets. They remain strong in this second quarter, and I'll discuss each of them in turn. Our lead computing customer is continuing a steep production ramp of its wafer-scale engine with best-in-class AI inference performance. Wafer-scale engines and future embedded multi-die and co-wash packages for AI chiplet solutions are uniquely enabled by vertical power delivery. Further advances in AI performance are about to be enabled by VICO's second-generation VPD solution, with 3 amps per square millimeter current density and a current multiplication factor of up to 40 in a 1.5 millimeter thin package. Per my Q4 comments, engagement with other HPC customers for second generation VPD solutions will follow the generational transition by our lead customer. With capacity in our first chip fab earmarked for existing strategic customers, we will continue to be selective as we add additional customers. On the VPD front, competition is handicapped by a multiplicity of issues, including inadequate current density, and stacked packages that are not mechanically and thermally adept. That's because competition copied a first-generation VPD solution whose pioneering aspects are still immature and at risk of continuity of supply challenges caused by patent infringement. Our broad industrial market, which is supported by our global distribution partners, had a strong first quarter, and our top 100 industrial OEMs in the automated test and semiconductor manufacturing equipment markets continue to benefit from the AI data center build out with strong order placement. We are also winning next generation platforms with earlier generation and new factorized power system solutions. Our current multipliers supplying high power to ASIC and memory test heads and pin electronics remain unchallenged in terms of current density low noise, and thin packages. Geopolitical developments have been a key driver of our aerospace and defense business in recent quarters. Increases in spending as a percentage of GDP and replenishment of defensive and offensive systems supports the growth of this market. Our objectives, goals, and strategies for 2026 remain unchanged with a focus on a portfolio of 100 customers globally across four market segments. Future growth opportunities will require capacity expansion, including a second FAB. A combinatorial strategy of being the power system technology innovator and an IP licensing company is delivering results. With that, we'll take your questions.

Operator | Conference Operator:

Thank you. As a reminder, 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. Our first question comes from the line of Quinn Bolton with Needham & Company. Your line is now open.

Quinn Bolton | Analyst, Needham & Company:

Hey, guys. Congratulations on the nice results and outlook. I guess I wanted to start with just the assumptions you're making around 2026 for the IP licensing business. Looks like royalty revenue in Q1 was about $15 million or about $60 million annualized. I know you're not assuming any additional or new licenses signed, but where do you see royalty or licensing revenue this year as part of that 570 guidance?

Patrizio Vinciarelli | Chief Executive Officer:

The 570 guidance includes royalties, which would increase somewhat based on existing licensing agreement. In terms of providing, in effect, safe guidance, we thought it would be best to set aside any opportunity with respect to, if you will, early deals relating to current actions. So our working assumption for guidance purposes is that we're not going to have any until we get to further demination or a second case next year, but it could be that we do get some ahead of that timeframe.

Quinn Bolton | Analyst, Needham & Company:

Understood. And then, Patricio, last quarter, you seemed pretty confident that the utilization in Andover would approach 80% by the end of 26 or early 2027, looks like you're on a strong product ramp, but are you still sort of comfortable or still expecting utilization to sort of achieve those levels that you discussed last quarter?

Patrizio Vinciarelli | Chief Executive Officer:

Yes, in absolute terms with respect to product revenues, what has transpired since we last spoke on this topic is that we actually have significant level of elasticity with respect to expansion capacity within the fellow seed facility that's giving us a little bit more flexibility with respect to the timing and choice of the location for the second fab so to get a little bit more specific we've seen an opportunity for a relatively significant expansion in capacity. It could be as much as 50% above what had been planned to be supported in terms of annual revenues out of the federal state facility. So that gives us caution with respect to timing, which we're putting to good use in terms of the choice of a location. And to give you a little bit more flavor with respect to that, We've also come around to focusing on existing buildings as opposed to a piece of land because of the fact that with an existing building, we can execute much more rapidly in terms of capacity expansion. And part of the strategy with respect to getting more out of the federal state facility is to selectively source outside of that facility some of the process steps that can be more easily relocated. So that should give you the picture with respect to both the capacity utilization and the plants with respect to capacity expansion.

Quinn Bolton | Analyst, Needham & Company:

Sorry, Patricio, just a quick clarification. Did you say that in the first handover facility, you would be outsourcing some manufacturing steps either to third parties, or would that be to the second chip fab?

Patrizio Vinciarelli | Chief Executive Officer:

It would be to an interim location for the second chip fab. But this would still be totally within VIGO control. But there are process steps that can be easily located in a nearby building. And that's part of the plan to extend capacity of the LFL State Facility.

Quinn Bolton | Analyst, Needham & Company:

Understood. Thank you. I'll get back and keep.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Justin Clair with Ross Capital Partners. Your line is now open.

Justin Clair | Analyst, Ross Capital Partners:

Hi. Good morning. Thanks for the questions here. I think first off, you mentioned engagement with additional VPD customers I think could follow the generational transition for the lead customer from Gen 4 to Gen 5. I was wondering if you could just provide an update on the anticipated timing of that transition. I think you had previously been looking for the second half of 2026, and then trying to get a sense for when the potential orders with additional customers could be and what the revenue timing might be.

Patrizio Vinciarelli | Chief Executive Officer:

Yeah, so the generation transition we're referring to here, it will be enabled in the second half of this year, and we expect a ramp to begin before the end of this year with respect to that next generation capability with the lead customer. And we will follow that with additional customers for second gen VPD solution. As Phil pointed out earlier, we are planning for the increments of capacity that we're going to have available to support opportunities that are, as in the case of a lead customer, long-term strategic to Viagra. And fundamentally, in spite of capacity expansions, we expect to remain capacity constrained for a substantial timeframe. And that leads us to want to pick the right timeframes companies, the right applications, where as in the case of the lead customer, we can make a very substantial difference with respect to levels of performance and opportunity to win substantial market share.

Justin Clair | Analyst, Ross Capital Partners:

Got it. Okay. And then just on the backlog, so in Q1 backlog increased significantly here to just over 300 million. wondering if you could speak to, you know, how quickly you anticipate turning that over. And then, you know, assuming you get to, well, and then I guess just as the business continues to scale, how do we think about the lead times and the conversion of that backlog? And then maybe how much backlog you think may be necessary in order to support the $800 million run rate that you have previously talked about?

Patrizio Vinciarelli | Chief Executive Officer:

Well, so starting with Q2, the bookings are just as strong as they were in Q1. So we expect to, once again in Q2, have a very strong book-to-bill. So the backlog is going to keep building up as we step up the revenue levels and capacity utilization as the year progresses.

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

Phil, do you have... No, I think the question was the existing backlog. I mean, that rolls pretty much over the next 12 months. That's how we recognize it. So, yeah.

Justin Clair | Analyst, Ross Capital Partners:

Got it. Got it.

Jim Schmidt | Chief Financial Officer:

Okay. Justin, in any backlog we quote, the bookings we quote, it's always a 12-month window. Got it. Okay.

Justin Clair | Analyst, Ross Capital Partners:

And then maybe just one more on the capacity. So you're talking about expanding capacity at FAB1? Yes. How much capacity do you anticipate adding? What level of revenue do you think could be supported by the first FAB? And then I think you had talked about this a little bit in terms of the potential size of FAB 2, but I'm not sure I caught it. So maybe just what revenue level could be supported by the second FAB?

Patrizio Vinciarelli | Chief Executive Officer:

So you might recall in the past we had earmark capacity out of FAB 1. at roughly a billion dollar per year run rate. We see a way to get that to at least one and a half billion at this point. And that's coming out of a combination of initiatives we've identified with certain process steps that have been historically capacity limiting overall. opportunities to get to a shorter cycle time and increase capacity with those steps. So that's a key element of this capacity expansion plan. To complement that, as I mentioned earlier, we see opportunities with process steps that are not as critical and which can be easily redeployed. an opportunity to redeploy them in an existing neighboring facility. Again, as a stepping stone to the second FAB, which has got a longer lead time in terms of what it takes to bring it to fruition. So we believe this approach gives us a lot more flexibility it will improve our opportunity for significant margin expansion because we will not be incurring for a certain level of total capacity as much in terms of additional equipment and depreciation. And overall, it's a plan that meets the combination of objectives that we sell ourselves and the need to support a variety of market opportunities, not just in the computer space, but in the other markets where we're seeing considerable strength.

Justin Clair | Analyst, Ross Capital Partners:

Got it. Okay. Thank you. I appreciate it.

Operator | Conference Operator:

Thank you. Our next question comes from the line of John Tenwanting with CJS Securities. Your line is now open.

John Tenwanting | Analyst, CJS Securities:

Good morning. Thank you for taking my questions, and congrats on the next quarter and the strong orders and outlook. My first question is, Patrizio, you mentioned you expect to be capacity constrained before you expect the new FRAD to come up, and I don't know if the expansions will occur before that as well, but what does that mean for your customers and their sourcing strategies? Do they need to turn to your competitors, or do you have some kind of licensing strategy that you may employ or have in mind to help them avoid that constraint? Just help me understand, you know, what the timing is around their growth trajectory is and what you expect your capacity to be underlying that.

Patrizio Vinciarelli | Chief Executive Officer:

So, first of all, we purchased a second 3DI or three-dimensional interconnect line that's going to be installed in the Q3, Q4 timeframe. So, that in and of itself is an element of the capacity expansion plan. Second, as I mentioned earlier, within each of the 3D interconnect lines, we have identified ways to reduce cycle time and increase capacity in inverse proportion. Beyond that, we have expansion plans outside of the federal seed facility, and we are engaged in discussions that could lead to another source for a second-gen VPD technology, which we believe is going to be in great demand for a variety of reasons in years to come. Because fundamentally, it is the only way we know how to address the current demands processors with all of the right attributes. The way it is done with competitive alternatives that to some degree build upon what we call a first generation of EPD technology is, as suggested in the earlier remarks, challenged in a number of respects because of the, in other words, current density. is fundamentally a dominant effect. In other words, current density forces stacking of the elements of the solution. The stacking has mechanical complexity and terminal challenges because the heat gets trapped within the stack. It's fundamentally inept at keeping up with escalating current density needs in future generation of processors. So even though we have ambitious capacity expansion plans, we see an alternate source playing a key role in years to come in terms of achieving greater overall penetration and win-win opportunities in the marketplace.

John Tenwanting | Analyst, CJS Securities:

Got it. Thank you. Could you also talk about the upcoming 800-volt data center architecture and the potential for transition to like a six volt intermediate bus and where your 48 to 12 volt systems sit within that? Do you expect maybe the NBM market to continue to grow as those architectures take share or is there a transitory period where maybe that falls off and maybe transitions to your VPD technology and licensing and royalties on that side?

Patrizio Vinciarelli | Chief Executive Officer:

So we believe the initiative to go directly from 800 volt to 6 volt is frankly ill-conceived. It's internally inconsistent, and it's relatively easy to understand why. The logic of bussing power at 800 volt is predicated on that power distribution being at a higher voltage, more efficient. And there is an opportunity to improve efficiency by a few percentage points through the use of an undervolt bus. But inheriting that is the opposite effect at the other end of that proposed bus conversion step. Because going all the way down to 6 volts, as you can imagine, relative to 48 volt, the ratio being essentially 8 to 1. You have to square that. So the square of 8 is 64x. So the position of changing power distribution next to the point of load down to 6 volts is fundamentally challenged by the extreme inefficiency of distributing any amount of significant power at six volts. You can only go short distances and retain some level of efficiency. But to some extent, that's incompatible with an undervolt bus not being safe, right? Because it can give rise to hazards. So there's a lot of challenges with that whole concept. And fundamentally, it's is a change in direction away from where the forward should be, which is at the point of load with respect to vertical power delivery. That's where the core challenge technically resides. And going off and trying to figure out how to save a few points out of 800 volts

particularly when you combine that with a step all the way down to six volts is, in my opinion, a bad idea. But time will tell. And by the way, Vigo has provided technology other than the volt. We did a lot of pioneering developments with respect to bus conversion from 800 volt. And should that be successful to any degree, there's going to be issues with respect to IP there too. But in terms of your question as to what we expect to happen with that, we expect it to move forward, but we think it's a diversion from the real challenge, which is at the point of load. Any particular points of note with respect to vertical power delivery?

John Tenwanting | Analyst, CJS Securities:

Got it. Very helpful. Thank you, Patricio. Good luck.

Operator | Conference Operator:

Thank you. Our next question comes from the line of John Dillon with D&B Capital. Your line is now open.

John Dillon | Analyst, D&B Capital:

Hi. Yes, guys. First of all, congratulations, especially on the bookings. Looks really good. Hey, I just wanted to go back to capacity for a minute. I want to make sure my numbers are right. If I heard correctly, you've got about a billion in capacity in your current FAB. You can add another half a billion. But on top of that, you have BRICS. And I would guess your BRICS would be at least 250 million. So am I right in assuming that your capacity with this expansion in the current area is about 1.75 billion?

Patrizio Vinciarelli | Chief Executive Officer:

No. So the BRICS are part of it. I don't think they're quite at the level of 250. And, you know, as we've been saying for quite some time, you know, before too long, they're practically irrelevant. We shouldn't be thinking about breaks. And in effect, part of our strategy with respect to the expansion or capacity of Federal Street is to minimize the footprint taken up by legacy products that don't have the growth opportunity. of advanced products, in particular second-gen VPD. So the number I quoted earlier is a step up in our capacity plan for Federal Street from one to one and a half billion. That's an all-inclusive number. Now, that all-inclusive number could potentially go further up but it wouldn't be because of the big contribution. It would be because of more opportunity for a special capacity of advanced products.

John Dillon | Analyst, D&B Capital:

Got it. So you see you could get above $1.5 billion. Excellent.

Neil Gore | Shareholder:

Yes.

Patrizio Vinciarelli | Chief Executive Officer:

We feel comfortable with a $1.5 billion target At this point in time, and again, the same process that has led us to identify opportunities to set capacity up measured in revenues per year from one to one and a half billion may have yet some further opportunity. Again, the logic behind it is to give ourselves more runway with respect to the next set of steps which include a variety of strategic choices ranging from the second FAB to

alternate sourcing.

John Dillon | Analyst, D&B Capital:

Excellent. And with this expansion capacity, will you be able to satisfy the OEM and the hyperscaler customers you talked about in Q3 that came to you back in Q3 conference call? You mentioned those two. And I'm wondering if this expansion capacity will be able to satisfy them.

Patrizio Vinciarelli | Chief Executive Officer:

Yes.

John Dillon | Analyst, D&B Capital:

Excellent. Thank you. I'll get back in the queue. Yeah, go ahead. Go ahead.

Operator | Conference Operator:

Thank you. As a reminder, to ask a question at this time, please press star 11 on your touchstone telephone. Our next question comes from the line of Richard Shannon with Craig Callum Capital Group, LLC. Your line is now open.

Richard Shannon | Analyst, Craig Hallum Capital Group:

Well, hi, guys. Thanks for letting me ask a couple of questions. I guess my first is a simple one here. The backlog has risen very nice, I think 70% sequentially. If you could characterize the sources of that increase here, whether it's from the lead VPD customer or anyone else in the kind of high-performance computing space and all other markets, if you could characterize between those three, that would be helpful. Thanks.

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

Yeah. Hi, Richard. It's Phil. So in high performance compute, yeah, it was the lead customer and the hyperscaler customers that we have. But we also saw some really good lift in industrial and the defense aerospace markets, as I commented. It was really strength across the board, you know, broad markets as well as in high performance compute with a few lead customers.

Richard Shannon | Analyst, Craig Hallum Capital Group:

Okay, great. Thanks for that. My follow-on question is, and apologies if I missed something, I had a couple interruptions here, but wondering if you could discuss the engagement or even design win status with follow-on, you know, VPD customers here. Sounds like, if I heard correctly, you're talking about strategic reservations on either capacity in the first FAB or the proposed second one here. Wondering if you can discuss the dynamics around those follow-on customers.

Patrizio Vinciarelli | Chief Executive Officer:

So I suggested earlier, Richard, we're very much focused on competing readiness with respect to starting a generational change with a lead customer and with some other opportunities relating to that. I guess A way to think about this is that, in spite of the capacity expansion that we are pursuing, we see ourselves being essentially sold out in terms of capacity for the foreseeable future. And that gives us... the opportunity to be very selective with respect to new engagements in terms of their strategic significance and alignment of interests for the medium to long term. So in a way analogous to the comments I made earlier regarding expansion of capacity coming out of federal seat, first of all, giving us more time and opportunity with respect to, you know, parallel initiatives. On the front end of the business, just like the back end of the business, the fact that we're going to be enjoying strong bookings and strong backlog, and we have a near-term capacity nearly sold out, gives us an opportunity to align ourselves with the right applications and the right customers going forward. So we don't have to feel a sense of urgency because of where we stand in terms of the demand side.

Operator | Conference Operator:

Thank you. Our next question is a follow-up from Quinn Bolton with Needham & Company. Your line is now open.

Quinn Bolton | Analyst, Needham & Company:

Hey, guys. Thanks for the follow-up questions. Patricio, just a quick clarification on the capacity expansion in Andover. When would you expect to reach that $1.5 billion of capacity? Is that end of 26? Is it going to take until sometime in 2027? And then I've got a follow-up.

Patrizio Vinciarelli | Chief Executive Officer:

Well, so I don't think we want to be that specific at this point in time. As I'm sure you know, because of changing circumstances, we achieved the necessary comfort level to provide guidance for revenues for this year. But as we get past that, There are still so many different scenarios that it would be unwise to become very specific. Beyond saying that we have a plan to step up the capacity further, and we believe there is the market demand to use that expanded capacity as we get into 27 and beyond.

Quinn Bolton | Analyst, Needham & Company:

Got it. Okay, that's understandable. And then I just wanted to come back. I think, Phil, it was Phil that mentioned on the second-gen VPD, your solutions are one and a half millimeters high. I just wanted to clarify that. And if that's the case, I guess at the recent APEC conference, there were a ton of presentations on vertical power with folks like NVIDIA and Google asking suppliers to hit three millimeters or below. It sounds like you may be well below that threshold already. And so just wondering if you can talk about the interest you're seeing on the VPT products, because it does sound like you may have a major advantage in package height versus the competition.

Patrizio Vinciarelli | Chief Executive Officer:

We do. And actually, it is even bigger than you might think for reasons I'm going to explain in a moment. It's not just that our solution is one and a half millimeter thin, but as Phil pointed out in his prepared remarks, it's that combined with the fact that our solution provides 40x current multiplications. And it does all of that with 3

amps per square millimeter current density. You need to really, in order to assess the figure of merit of a technology, you need to look at these three elements in combination. You can't just look at one. As an example, so-called integrated voltage regulators, IVRs, they can be even thinner than 1.5 millimeter, but they don't provide any meaningful current multiplication. They only step up the current by 2x, which is, practically speaking, useless in terms of efficient power delivery to the point of load. Because in order to deliver, let's say, 0.6, 0.7 volt, 2,000 amp, that would require a 1,000 amp feed, which is obviously extremely problematic. So it's not just thickness, it's thinness combined with current density and, most importantly, current multiplication. Because in order to have a VPD solution that is capable of supporting a wafer scale or other kinds of advanced compute capabilities, you really need the combination of all these elements, not just one of them. Understood. Thank you, Patricio.

Operator | Conference Operator:

Thank you. Our next follow-up comes from the line of John Tenwantang with CJS Security. His line is now open.

John Tenwanting | Analyst, CJS Securities:

Hi. Thanks for the follow-up. Jim, can you touch on the taxes in the quarter? What went into that tax rate, and then what rate can we expect going forward? And then I have a follow-up after that.

Jim Schmidt | Chief Financial Officer:

Yeah, so when we closed fourth quarter, we reversed a significant portion of the valuation allowance, and our expectation was more or less that we would be in the range of 20% in terms of an effective tax rate. What happened, John, in Q1 is that there was a substantial pent-up demand in terms of stock options that got exercised that a nice spread between strike and exercise price. And that's a tax benefit for us. So that's a, that's a one time discreet item, um, that doesn't get baked into the effective tax rate. And our feeling is that going forward, you know, there'll still be that effect, which is a positive effect for us, but, um, but planning can be more in the line with a 20% kind of a rate.

John Tenwanting | Analyst, CJS Securities:

Perfect. Thank you. And then Patricio, could you talk a little bit more or maybe feel just about the demand from the defense? and semi-test businesses, what percentage of revenue are they, number one? And number two, just with regards to defense piece specifically, are you able to meet the critical defense needs that the U.S. has with the upcoming capacity constraints that you're modeling?

Patrizio Vinciarelli | Chief Executive Officer:

I'm sorry, some of your words are metal. Can you repeat the first question?

John Tenwanting | Analyst, CJS Securities:

Yeah, first, the percentage of semi-test and defense in the revenue today, and second, can you meet defense demand as it grows? you know, given that it's critical, given the capacity constraints that you're modeling going forward.

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

Yes. So, John, as Phil, we don't break those things out, but the answer to the question is we can meet the needs of the defense market with the capacity that we have. Okay, great. Thank you.

Operator | Conference Operator:

Thank you. Our next follow-up comes from the line of John Dillon with D&B Capital. Your line is now open. Thank you.

John Dillon | Analyst, D&B Capital:

Hi, yeah, I was just wondering, does ViCore have any vertical power licensing agreements that will generate revenue this year?

Patrizio Vinciarelli | Chief Executive Officer:

So there may be opportunity of alternate sourcing of the second gen VPD technology, but this is not something that we're prepared to talk about today.

John Dillon | Analyst, D&B Capital:

Okay. And, Phil, on the bookings, can we assume a bookings run rate of what we saw today for the rest of the year?

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

So, John, I think the bookings are going to be well above one, like Patricio talked about. But, you know, they're lumpy, so I don't want to be pegged to a particular ratio. But they're very strong going into Q2, and we'll say well above one. Thank you very much.

Operator | Conference Operator:

Thank you. Our next question comes from the line of Don McKenna with DB McKenna and Company Inc. Your line is now open.

Don McKenna | Analyst, DB McKenna and Company:

Yeah, Phil, could you give us an idea of what percentage of the backlog is attributable to your lead customer?

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

Again, we don't break that out. They're an important lead customer for us, but they're not, you know, the only major one. We've got a hyperscaler and big customers across industrial and defense and aerospace that are ramping, as well as just the broad market. So it's just general strength right now that's really good that we're benefiting from.

Don McKenna | Analyst, DB McKenna and Company:

Okay, thank you.

Operator | Conference Operator:

Thank you. As a reminder, to ask a question at this time, please press star 11 on your touchstone telephone. Our next question comes from the line of Neil Gore, shareholder. Your line is now open.

Neil Gore | Shareholder:

In the past, you said you expect that royalty income could grow to as much as 50% of product revenue. Do you still have that expectation?

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

The expectation of the licensing as a percentage of product revenues, we've talked as much as 50%. The question was, can we Do we still hold to that?

Patrizio Vinciarelli | Chief Executive Officer:

Yeah, we feel very good about a licensing practice. We are investing heavily in it. It would be investing in it at an escalating rate because we see that business as being both a high growth business in terms of its top line and needs to say, is nearly 100% margin in terms of profitability. We anticipate, as discussed in prior meetings, that there will be a time in the not-too-distant future when OEMs and hyperscalers will be vital with only perhaps rare exceptions. We see that dynamic progressing, and we think we're pretty close to a crossing of the chasm with respect to the industry wanting to be protected in terms of a license to enable power system technology from Weigel.

Neil Gore | Shareholder:

Thank you. Do you expect that some of the other lawsuits that you have had for violating your patents, has anyone approached you to settle after the big settlement you received earlier last year?

Patrizio Vinciarelli | Chief Executive Officer:

So we carried the first ITC case to a successful conclusion. And to be clear, That conclusion doesn't mean that there isn't ongoing opportunity relating to the first ITC case. In fact, there is an action pending a customs as we speak relating to that first exclusion order. While we're working with The case we brought earlier this year, for which the ADC once again chose to issue an investigation to get that to its final determination, which should result in a second exclusion order. And this may not be the end of the road. I mean, in Italy, we are saying that there is no two without three. So there's been two thus far. Don't be surprised if you see a third one. And so this, again, part of a very comprehensive campaign. You know, Weigel has been the pioneer in the power system industry, always very much in the forefront of very high power density and performance for nearly 40 years as a longstanding pioneer in the industry. We got into places well ahead of any competitor in scouting these new landscapes with respect to power distribution architecture, power conversion engines, control system, advanced power conversion components. You know, we have consistently pursued an extensive... protection through many patents. And lo and behold, the industry, given demands in AI and with respect to other electronic systems, now is very much in need of those kinds of technologies that Viagra

pioneers. So licensing is going to be an expanding portion of our business. a very significant one in its own right beyond our module maker through, again, unique FABs revenue capability.

Neil Gore | Shareholder:

Okay, and next question on that. Are there any expenses affiliated with licensing revenue? Is it part of your SG&A perhaps?

Jim Schmidt | Chief Financial Officer:

Any expenses associated with licensing revenue?

Patrizio Vinciarelli | Chief Executive Officer:

Of course, the lease. Yes. So we have partnered with law firms that have a share of the interest in the outcome, you know, subject to caps and so on and so forth. So as we record the licensing income, we record the operating expense. for the share of the proceeds from the litigation that led to the licensing deal owed to our partners.

Operator | Conference Operator:

Thank you. Thank you. Thank you. Our next question is a follow-up from Justin Clare with Ross Capital Partners. Your line is now open.

Justin Clair | Analyst, Ross Capital Partners:

Hey, thanks for taking the follow-up. So this one here, so we did see a large transaction announcement between OpenAI and a wafer scale supplier last week. And just wondering against that backdrop, can you share how your visibility into demand has evolved over the last quarter? And then maybe if you could comment on the size of the opportunity you're seeing with your lead customer for vertical power and how that compares to the visibility you had last quarter.

Patrizio Vinciarelli | Chief Executive Officer:

Well, I think we felt very strongly about a lead customer technology and their market opportunity. And frankly, for a number of years, I was confronted with a degree of skepticism by investment bankers and the like who didn't share the same level of confidence that Weigel had in a lead customer. And so that's been proven out to be the right expectation. We think they have a real opportunity technological advantage at least for a certain class of AI applications and that will translate into share market share growth and we believe substantial success in years to come and that's an opportunity for us to say as we have with the AI market in general.

Justin Clair | Analyst, Ross Capital Partners:

Okay. Appreciate it. Thank you.

Patrizio Vinciarelli | Chief Executive Officer:

Thank you.

Operator | Conference Operator:

Our next follow-up comes from the line of Richard Shannon with Craig Hallam Capital Group. Your line is now open.

Richard Shannon | Analyst, Craig Hallum Capital Group:

Well, hi, guys. Thanks for letting me follow up. Kind of a multi-part question here on licensing. Maybe you can update us on the number of licensees you currently have generating revenues and if there's multiple licenses you know, licenses per licensee would be probably a good understanding there. Then also wondering if you have any licenses that are expiring and need to be renewed like this calendar year. And then ultimately, you know, you talked about the ability or the belief in growth in this business here. To what degree do we need to see growth in licensees versus number of licenses, or can you grow at a rate that you're expecting without any growth in those numbers? Thank you.

Patrizio Vinciarelli | Chief Executive Officer:

So I view our business model as being very resilient, very redundant because we have great opportunities as a module maker and we have great opportunities as a licensor of enabling technology. And those two opportunities are very synergistic because in our licensing deals, we provide incentives for OEMs, hyperscalers, to be more than licensees, to be customers of our modules and advanced technology power system solutions. So we feel, I feel, speaking for myself, very confident we're going to be very successful on each of those two fronts. And again, they reinforce each other in pretty much every way.

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

Richard, maybe I can also, if you don't mind, I'll add a little bit to that. So if you look at products that are getting launched later this year, maybe early next year from different GPU companies or even hyperscalers, A lot of them are going lateral and vertical because they can't really solve the full vertical problem, the vertical challenge, because of what Patricio has talked about, lack of current density, mechanical issues. And so you'll see a little bit of lateral with a bit of vertical. And that vertical, as we talked about, copies our first generation VPD. If you go to what Cerebras and the wafer scale companies do, You've got a challenge there of bandwidth, which they solve through their wafer scale engine. Everybody now is starting to look at the co-wash packaging, the packaging that Intel has brought to market with multi-die chiplet. The only way to power that stuff to solve the memory bandwidth problem is pure vertical power delivery. And that's where you need one and a half millimeter height packaging, greater than 3 amps per millimeter squared current density, and 40 times, if you like, the capability of the power delivery to that network. Current multiplication. Current multiplication, where at 6 volts, you've got 64 times the power losses than at 48 volts. And at 2 volts, you've got 526 times the power losses for an IVR system. So you start to run into real fundamental issues here where the VPD technology, our second generation VPD technology for these future technologies where we're going to focus on these strategic alignments where they really need the VICO VPD, that's where we're headed.

Patrizio Vinciarelli | Chief Executive Officer:

Again, the competition tends to focus on one element, like kernel density, and they can make you know, some headway with respect to that element, but inherent in the architecture is a conflict among key elements of the solution where fundamentally you got to take off one to make it a little better for the other when the right solution, the necessary solution must involve all of these ingredients, high carbon density, high carbon multiplication, in a solution that is relatively thin. And by the way, we're not stopping at one and a half millimeter. We're going thinner. Because as we get to power and package, it will need to be thinner. And with our technology, we can go a lot thinner.

Operator | Conference Operator:

Thank you. Our last question comes from the line of Don McKenna with DB McKenna and Company. Your line is now open.

Don McKenna | Analyst, DB McKenna and Company:

This is a simple one, guys. I haven't been able to attend the annual meeting for the last few years because of a conflict in timing. And I'm hoping that you don't schedule it for the 20th of June this year.

Jim Schmidt | Chief Financial Officer:

Well, the 20th of June is a Saturday, and so I'll let the cat out of the bag. The proxy is coming out soon. The annual meeting is Friday, June 19th.

Don McKenna | Analyst, DB McKenna and Company:

19th. Okay. Thank you very much.

Patrizio Vinciarelli | Chief Executive Officer:

Okay. Thank you.

Operator | Conference Operator:

Thank you. This concludes the question and answer session. Thank you all for your participation on today's call. This does conclude the conference. You may now disconnect.