NASDAQ:VICR Q2 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the second quarter 2026 Viacor Corporation 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. And to ask a question during the session, you would need to press star 1-1 on your telephone. You will then hear an automated message advising your hand is raised. And to withdraw your question, please press star 1-1 again. Please be advised that today's conference is being recorded. I would like now to turn the conference over to 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 second quarter ended June 30, 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 and six months ended June 30, 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, July 21, 2026. VICOR 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 review of our Q2 financial performance. after which Phil will review recent market developments and Patrizio, Phil and I will take your questions. In my remarks, I will focus mostly on the sequential quarterly changes for P&O 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 and royalty revenue for the second quarter of $143.4 million. up 26.9% sequentially from the first quarter of 2026 total of $113 million and up 1.6% from the second quarter of 2025 total of $141 million which included a $45 million patent litigation settlement. Advanced product revenue increased 45% sequentially to $94.2 million and BRIC products revenue increased 2.4% sequentially to $49.2 million. Schmidt's stocking distributors increased 4.2% sequentially and increased 38.8% year over year. Exports for the second quarter decreased sequentially as a percentage of total revenue to approximately 46% from the prior quarter's 48.9%. For Q2, advanced products share of total revenue increased to 65.7% compared to 57.5% for the first quarter of 2026, with BRIC product share correspondingly decreasing to 34.3% of total revenue. Royalty income from our most recent license agreement, which provides for four $5 million quarterly payments in its first year and

$10 million quarterly payments in its second year, contributed $15 million to Q2 revenue. In view of its accounting treatment, this license agreement is expected to contribute $5 million in Q3 and $10 million per quarter for the following four quarters. Turning to gross margin, we recorded a consolidated gross profit margin of 58%, a 280 basis point increase from the prior quarter, Q1 gross margin decreased 730 basis points from the same quarter last year, which included the previously mentioned $45 million patent litigation settlement. I'll now turn to Q2 operating expenses. Total operating expense increased 6.1% sequentially from the first quarter of 2026 to $48.2 million. A substantial increase in operating expenses was due to a substantial increase in contingent legal expenses paid out to the law firms partnering with FICOR for the license deal reached in Q2. The amounts of total equity-based compensation expense for Q2 included in cost of goods, SG&A, and R&D was $897,000, $2,085,000, and $1,198,000 respectively, totaling approximately $4.2 million. Turning to income taxes, We recorded a tax benefit for Q2 of approximately $10.9 million, representing an effective tax rate for the quarter of minus 27.9%. The company's tax provision and effective tax rate for the quarter ended June 30, 2026, was positively impacted by stock options exercised in the quarter. Net income for Q2 totaled $49.8 million. GAAP diluted income per share was $1.04, based on a fully diluted share count of 47,708,000 shares. Turning to our cash flow and balance sheet, cash and cash equivalents totaled $453.6 million at Q2, an increase of $49.4 million sequentially. And we're pleased to report that last Monday, July 13, We received a payment from the IRS relating to our application for CHIPS Act investment tax credit in the amount of $14.3 million as a refund from our 2023 tax return. This amount and other tax credit amounts we expect from subsequent tax returns will add to our cash balance in Q3 and beyond. Accounts receivable net of reserves totaled $78.9 million at quarter end with DSOs for trade receivables at 37 days. Inventory's net reserves increased 10.2% sequentially to $104.5 million. Annualized inventory turns were 2.1. Cash flow provided by operating activities totaled $34 million for the quarter. Capital expenditures for Q2 totaled $11.2 million. We ended the quarter with a construction and progress balance primarily for manufacturing equipment of approximately $18.2 million and with approximately $23.5 million remaining to be spent. I'll now address bookings and backlog. Due to book to bill came in above one and one year backlog increased 26% from the prior quarter, closing at $379.7 million. 2026 is the year in which Vicor's innovative products and technology licensing practice came into focus within the industry. As we bring on incremental capacity, we expect a nearly 10% increase in Q3 revenue and over $600 million in 2026 revenue. To achieve these growth objectives, we are planning for double-digit sequential increases in product revenue for advanced products. As we said last quarter, this guidance is based on conservative assumptions about our licensing practice. Specifically, the new licensing agreements may not result until our second ITC case gets to its final determination in 2027. Additional exclusion orders further restricting importation of infringing computing systems may provide motivation to close new licensing deals on favorable terms. Along with revenue growth, We expect margin expansion. Phil?

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

Thank you, Jim. At our recent annual shareholders meeting, I presented an update on our company's strategy and objectives. Our financial objectives of $2.5 billion in revenues at 70% gross margins supersede the $1 billion and 65% gross margin targets set in 2023, which we are on our way to achieving. Our updated objectives are based on a two-pronged strategy, leveraging synergy between our power module sales and IP licensing practice. As discussed at the ASM, our power module business is focused on a set of 100 customers across four markets and four regions globally. Within each of the four markets of HPC, industrial, automotive, and aerospace and defense, We have customers who are on the cutting edge of high growth applications with the most demanding requirements for power and current density with high efficiency and signal integrity. A perfect example of this is vertical power delivery. AI data center hyperscalers and OEMs need vertical power delivery to meet compute density requirements and AI data center performance. The market opportunity is growing rapidly and competitors are challenged to deliver on two key specifications, current gain and current density. With current gains greater than 40 and current density up to 5 amps per millimeter squared, VICO's second generation VPD is way ahead of all generation one competitive solutions. As discussed at the annual meeting, we will engage with selected customers with development systems and

tools starting this quarter. Our objectives for our second generation VPD solutions over the next few quarters will be to expand our business opportunities with OEMs and hyperscalers wanting to be long term strategic partners. Major new product introductions are also underway in our industrial and aerospace and defense businesses, with market expansion now occurring outside of LEED top 100 customer opportunities that drove initial module development. As stated at our ASM a few weeks ago, we are very focused on the successful execution of our business strategy, which leverages our vertically integrated chip fab in Andover as the first of a multiplicity of foundries supporting our new financial targets of $2.5 billion in revenues with 70% gross margins and 40% operating income. With that, we'll take your questions.

Operator | Conference Call 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. And to withdraw your question, Please press star 11 again. And our first question is going to come from Quinn Bolton with Needham and Company. Your line is now open.

Quinn Bolton | Analyst, Needham & Company:

Hey you guys, congratulations on the nice results and outlook. I guess I wanted to start with the second-gen VPD and just maybe an update on how you're progressing with the lead customer, but also Phil mentioned starting to more broadly sample second-gen VPT to a broader customer base. Do you still feel like you're on track to secure a ramp Designs with either hyperscaler or other OEM customers with second-gen VPD over say the next 12 to 18 months?

Patrizio Vinciarelli | Chief Executive Officer:

Yes, so we've completed development with respect to a baseline of 3 amps per square millimeter current density with initial chipset for our lead customer. We are now completing demo systems, including a dedicated VPD demo system to showcase with other customers. And we're on our way to raising the bar fast for apps per square millimeter late this year, beginning of next year. So I'm delighted with the progress we made within the last several months in terms of reaching initial targets, and we have a roadmap to expand on that.

Quinn Bolton | Analyst, Needham & Company:

And beyond the lead customer, Patrizio, would you expect DesignWinds to sort of ramp maybe at this point second half of 27 for vertical power delivery?

Patrizio Vinciarelli | Chief Executive Officer:

I'm not going to make commitments with respect to specific days. I will say that I was in the Valley for visits just last week. There's a good deal of interest in our capabilities. We've been approached by two companies wishing us to provide a building block that is critical to deployment of IVRs. We look at that as an incremental opportunity. The reality of these capabilities, competitive capabilities, that is, as you look at the migration of VRs from 12-volt to 6-volt to 1.8-volt inputs, is that they're barely capable of delivering the real world slightly over 100 square millimeters. That's the message we're getting consistently from people in the know. When you look at all the factors at play, thermal deriding, other factors, the competitive capability is quite limited, barely above 100 per square millimeter. And the market need, particularly with respect to, you know, welfare scale engines, other advanced HPC system, is already above those levels and projected to become much higher in a matter of a few years. And frankly, the industry has no solution for these requirements.

Quinn Bolton | Analyst, Needham & Company:

Got it. And then Patrizio, just any updates on securing a site with or without building for your second chip fab?

Patrizio Vinciarelli | Chief Executive Officer:

So we have several options at this point. It made some offers. None of them was taken up yet, but we have the environmental choice at this point and we'll probably be making decisions in the last few weeks. Excellent. Thank you very much.

Operator | Conference Call Operator:

Thank you. And the next question will come from Richard Shannon with Craig Hallam. Your line is now open.

Richard Shannon | Analyst, Craig Hallam Capital:

Great, guys. Thanks for taking my questions. I guess the first one is, Jim, I'd love for you to repeat the numbers regarding royalties with, I think it was a new licensee or something. Those went by pretty quickly here. And if you could follow up with just kind of general expectations of how to think about royalties in the current quarter as you within the context of the guidance you just gave us of revenues up 10%, please.

Jim Schmidt | Chief Financial Officer:

Okay, Richard, I'll reread that paragraph for everyone. So royalty income from our most recent license agreement, which provides for four $5 million quarterly payments in its first year and $10 million quarterly payments in its second year. So that's a total of $60 million. contributed $15 million in Q2 revenue. In view of its accounting treatment, this license agreement is expected to contribute $5 million in Q3 and $10 million per quarter for the following four quarters. So the revenue is different than the cash collections, Richard, because of the GAAP accounting treatment. The $15 million recognized in Q2 was a result of the termination clauses in the agreement. So we could account for $15 million of the deal in this quarter. And because of the accounting treatment, that will drop to $5 million of revenue recognition in Q3. And then back up to $10 million for the balance of the agreement per quarter.

Richard Shannon | Analyst, Craig Hallam Capital:

Okay. I think that answered my question also about the implied guidance there. And maybe if you can, maybe I'll just ask Patrizio following up on this on, you know, characterizing this customer here, OEM, hyperscaler, etc., and whether this has been a past customer as well, please.

Patrizio Vinciarelli | Chief Executive Officer:

I can comment with respect to the identity of licensees, but I think what we have publicly disclosed, which I can reiterate here, is that we have a multiplicity of OEM licensees, one hyperscaler as of now.

Richard Shannon | Analyst, Craig Hallam Capital:

Okay, fair enough. And my follow-on question is partially based on what I see in the press release and then also true to I think in response to one of the past questions here about IVRs. The statement here in the press release about feeding IVRs with the criminal supplier is an incremental opportunity for Vicor. Would love for you to help me understand that a little bit better here. It seems like you could interpret as an incremental opportunity or could be displacing a full second-gen VPT solution here. So I'd love for you to help us understand that a little bit better.

Patrizio Vinciarelli | Chief Executive Officer:

So, our technology lends itself to supporting either alternative. Without question, a pure factorized power system is capable of considerably more current density, several times more, with considerably better efficiency. But that doesn't mean that all applications would go in that direction for a variety of reasons. One thing that IVRs do have, to be fair, is that they have flexibility. So in applications with a large multiplicity of nodes, highly fragmented set of nodes, there's something to be said for IVRs in that they do provide A great deal of flexibility, configurability. But that counts a significant expense in terms of insertion loss. 15%, maybe 10%, but then if you try to get it down to a 10% loss, they need to run at a lower frequency and they still have transient undershoots, which causes Our factorized power system no longer has. So we have a huge efficiency advantage relative to these competitive alternatives. But that doesn't mean we can't play a support role for those alternatives and capture significant business. Okay, great.

Richard Shannon | Analyst, Craig Hallam Capital:

Thank you.

Operator | Conference Call Operator:

Thank you. And the next question is going to come from Justin Clare with Roth Capital. Your line is open.

Justin Clare | Analyst, Roth Capital:

Hey, good morning. Thanks for taking our questions here. So I wanted to touch on the guidance. So updated your 2026 guide to over 600 million here. It looks like that the update is primarily related to the additional royalty payments that you had laid out. But wondering if there are any other notable changes relative to the initial guide related to shipment expectations or related demand. and then just on the new licensing agreement, wondering if you'd share just how that's structured. Is that only royalty payments that you're anticipating from that or could you also see greater demand from your FAB as a result of that licensing agreement?

Patrizio Vinciarelli | Chief Executive Officer:

So the total revenue growth comes to your point from a combination of New licensing deals, the ones we closed on, specifically the one that was closed in the second quarter, and product revenue growth. The initial license agreement that was closed in Q2 does not, for the first couple of years, provide for a sourcing relationship, but that's understood to be part of the relationship going forward in conjunction with our second-gen VPD capabilities. And that's going to be the nature of these relationships going forward with OEMs and hyperscalers.

Justin Clare | Analyst, Roth Capital:

Got it. Great. Thanks. And then just wanted to touch on the expansion underway at your first FAB here. Just wondering if you could share an update on the progress, you know, when you anticipate the expansion being completed. And then you had previously talked about being able to reach $1.5 billion in revenue after that expansion. or at least 1.5 billion in revenue could be supported by the expansion. But I think that's sensitive to product mix. So just wondering if you could also share just how product mix might affect whether or not you could deliver either above or below that 1.5 billion.

Patrizio Vinciarelli | Chief Executive Officer:

Well, so as reported, we are expanding capacity, but also absorbing that expanded capacity. And as time progresses, we're inevitably getting close to full capacity utilization with the first chip FAB, and that's why we're working to close on a second facility. The specific number at which the first FAB will top out is I think yet TBD. To your point, that target as of a year ago was a lot lower than it has been. And our operations team is continuing to work to expand it to the extent possible. But we are in a position in that With limited capacity, we have the opportunity to select those engagements that make sense strategically for the long term. And that's what we're doing. We're not sold out, but we're approaching capacity utilization. And as we get closer, at least to the timeframe before the second FAB comes up, We're going to be very selective in our engagements.

Justin Clare | Analyst, Roth Capital:

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

Patrizio Vinciarelli | Chief Executive Officer:

Thank you.

Operator | Conference Call Operator:

Thank you. And the next question comes from John Dillon with DMB Capital. Your line's open.

John Dillon | Analyst, DMB Capital:

Hi. Thank you very much. And guys, congratulations on a great quarter. I've got a follow-up to the last question. And that's that you've stated your goals of $2.5 billion in revenue. coming up here and I'm wondering are you planning on getting there with your existing factory or is it going to take a second fab to get there you know along with revenue plus royalty income can you get to 2.5 with your existing facility?

Patrizio Vinciarelli | Chief Executive Officer:

No. Okay. There's a definite no. It's going to take a second fab to get there.

John Dillon | Analyst, DMB Capital:

Okay. Well, that kind of lights into my follow-up. My channel checks are saying that you guys have Avago, Google, and AMD. And AMD, we've seen pictures of gold bars, you know, on their new processor. So how big are these going to be in the next year? And how are you going to have the capacity to serve them?

Patrizio Vinciarelli | Chief Executive Officer:

I'm not going to comment about sightings of gold bars anywhere. But... So, as you say, we have a very distinctive product. It's distinctive in that it's manufactured uniquely in a fab with three-dimensional interconnect processes that give it its golden look. But to be clear, while it's got a golden look, it doesn't carry the cost of gold with it. To the contrary, among other things, we are going to have the lowest cost card. So, I think we got exciting years ahead with respect to raising the bar on the revenue line, on the profitability along the lines of what Phil was suggesting earlier. But it's going to take a second FAB to get to those levels.

John Dillon | Analyst, DMB Capital:

And how big will that second FAB be? Will it be able to do $1.5 billion or do you expect it to be able to do more in revenue?

Patrizio Vinciarelli | Chief Executive Officer:

We are now selecting two sites that have what we told to support a considerable expansion as much as 2x, potentially 3x the first file.

John Dillon | Analyst, DMB Capital:

Thank you very much. I'll get back in the queue. Thank you.

Operator | Conference Call Operator:

Thank you. And our next question will come from Richard Shannon with Craig Hallam Capital. Your line is open.

Richard Shannon | Analyst, Craig Hallam Capital:

Great, guys. Thanks for taking a follow-up here. I'm going to follow up on the last answer here, Patrizio, just to make sure I understand it here. So your first model of $1 billion was just with the first FAB. And as we just heard from your answers here, the 2.5 requires a second FAB here. And if I heard you correctly, the second FAB is going to be two to three times the first FAB. Seems like you'd have the ability to do a lot more than $2.5 billion with both those FABs plus any licensing here. So, I wonder if you could rationalize the disconnect here, please.

Patrizio Vinciarelli | Chief Executive Officer:

So, with the second site and the second FAB, there's going to be a series of steps. This is not all going to be built out automatically. on day one. Needless to say, we don't want to create unnecessary or premature depreciation. We're going to have a couple steps. To begin with, we're looking to essentially double capacity, but we are selecting sites that have the requisite expansion flexibility so that without having to go to a third side, we can further increase capacity.

Richard Shannon | Analyst, Craig Hallam Capital:

Okay, that is helpful. Thanks for that. And my follow-on question is on product gross margins. I'm assuming all the royalty revenues are 100% here, and if I back that out, Calculate a product gross margin. It's actually down a couple hundred basis points from the last couple of quarters here. I wonder if you can help us understand the dynamics there and whether that trend will reverse itself here in the near future.

Patrizio Vinciarelli | Chief Executive Officer:

I think Jim commented expectations of increasing margins. Yes. And so we...

Jim Schmidt | Chief Financial Officer:

There was a... There will be lift in the GM, product GM going forward, Richard, as we get utilization to go higher and absorption to go higher. I will say that there was sort of a, maybe one time, but an important event here in the second quarter relative to moving equipment around in the first FAB to make space for the equipment that's coming in. So that was incremental expense and cost of sales in the period that did not get capitalized and cannot be capitalized. So that did weigh on product gross margins as well. So you can imagine what had to happen in the factory to make the space really optimized for the new equipment coming in. It wasn't cheap to do that.

Richard Shannon | Analyst, Craig Hallam Capital:

Okay. Thanks for that explanation. That's all for me. Thank you.

Operator | Conference Call Operator:

Thank you. And the next question will come from Neil Gore, stockholder. Your line is open.

Neil Gore | Stockholder:

Your goal of $2.5 billion, within that goal, Will royalties be at 50% of revenue at that time?

Patrizio Vinciarelli | Chief Executive Officer:

I don't think we're in a position to make a specific position with respect to the mix. I think there's a lot to happen on the AP front. If Vigor is enabling technology on all of the areas where the industry has needs for increased current density or increased power density. So this will play itself out over a number of years. And the outcome of this campaign is still to undergo the steps we're going to need to take and the effect of those steps. So I think all that I can say is that we see Significant expansion in licensing income in years to come. We do expect a crossing of the chasm within the industry by hyperscalers, bounce OEMs, recognizing that playing a game of catch me if you can will result in significant issues in terms of the supply chain. If they're using our technology Thank you. Thank you. And our next question is going to come from Quinn Bolton with Needham & Company. Your line's open.

Quinn Bolton | Analyst, Needham & Company:

Thanks for taking my follow-up. Patrizio, I wanted to come to the licensing side of the business. The second license with your first licensee as well as your most recent license looks like those were, I think, just a couple of years in duration, which probably means you need to re-sign licenses as you get close to the end of 2027. Can you just, from a big picture level, talk about your strategy with new licenses as you look to expand to include more of the vertical power delivery content or sourcing agreements, but any... Can you provide any high-level thoughts on resigning those licenses as the current licenses come due?

Patrizio Vinciarelli | Chief Executive Officer:

Yeah, so we have a well-defined, mature licensing practice. It's got flexibility where needed. It is not up for grabs in terms of Flexibilities that don't make sense. So it does involve any OEM, any hyperscaler. It does not involve competitors. Competitors can participate without infringing our IP by sourcing their products, otherwise infringing products into OEMs or hyperscalers that have a license from Weigel. The licensing model has involved already two kinds of licenses. One, you might call a proportional license, which provides for unit royalties in direct proportion to actual usage. We also, in more recent years, have done two-year deals that are, in effect, all-inclusive With these deals, we understand, given the limited timeframe, what the current usage by the licensee is going to be. But needless to say, given the rate of expansion with hyperscalers and OEMs in the AI market in particular, it would be very difficult, if not impossible, to predict their level of business five, ten years down the road. With all-inclusive licenses, by necessity, we have to have a short time frame and then negotiate the new license depending on how the business by the licensee evolves during the two-year period. Understood. Thank you, Patrizio. Thank you.

Operator | Conference Call Operator:

Thank you. And the next question comes from John Dillon with DMB Capital. Your line is open.

John Dillon | Analyst, DMB Capital:

Thanks for taking my follow-up. Hey, Phil, I just wanted to check with you. How are the bookings looking for this quarter?

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

As I mentioned, I think it mentioned in the press release, John, the bookings are great. I mean, our bookings tend to be, can be lumpy. So sometimes, you know, we've reported book the bills of close to two. This one was a little bit lower, but I don't see any weakness at all. Going forward, aerospace and defense is strong. Industrial is very strong. High performance compute is strong. So, yeah, no, things look good. Excellent.

John Dillon | Analyst, DMB Capital:

And in the last press release, you talked about an OEM and you said they had a capability of being a second source. My question is, will they be a second source? And if not, how's a second source coming along for you guys?

Patrizio Vinciarelli | Chief Executive Officer:

So as commented throughout this meeting, a strategy in the short term is involved with a focus on bringing on additional capacity to a second facility, a second chip fab that we can totally control. We've had discussions with respect to potential alternate sources. There will likely be more discussions but the natural disengagements both in terms of predictability timeline is such that it would not put us in the position we need to be in terms of expanding capacity for key customers in the next couple of years. So a shift with respect to Thank you very much. key power system technologists.

John Dillon | Analyst, DMB Capital:

Excellent. And do you still expect 25 to 30% of your business from Cerebras next year?

Patrizio Vinciarelli | Chief Executive Officer:

I'm not going to make specific comments with respect to customers for obvious reasons, but we enjoy a very strong relationship. And I think... These and other customers are doing very well in their own space. Thank you very much.

Operator | Conference Call Operator:

Thank you. And the next question comes from Richard Shannon with Craig Hallam Capital. Your line is open.

Richard Shannon | Analyst, Craig Hallam Capital:

Thanks for taking my follow-up again here. At the risk of asking a very similar question to the last one here, Instead of asking about Cerebrus going forward here, can you tell us whether Cerebrus was a 10% customer in the second quarter?

Patrizio Vinciarelli | Chief Executive Officer:

Are we at liberty to say?

Jim Schmidt | Chief Financial Officer:

I think we'll disclose that in the queue, but I don't know that it would have been, Richard. So I don't know that I can comment right now, but let's take a look at the queue.

Richard Shannon | Analyst, Craig Hallam Capital:

Okay, I'll look forward to reading that. My follow-on question here is looking at the next customers for second gen VPD here and love to get a sense of how you expect the sales cycle to go and Patrizio also if you could comment on the degree to which any changes in architectures in whatever way that you would deem important to convey to us here how those will

Patrizio Vinciarelli | Chief Executive Officer:

Let me take the second part first and then Phil will address the first part of your question. So as suggested earlier, we see the industry with its usual traits of looking over each other's shoulder and parroting each other's initiatives. To keep going down a path that is characterized by continued toll dependency on a voltage-regulated engine at the point of load. That's fundamentally a flow strategy. It's not going to work. As suggested in the earlier comments, it's a strategy where you can only get some incremental current density well below what's going to be needed before too long. are at the expense of giving up on current gain. And that doesn't solve the problem, a problem which requires a combination of high enough current density with overall high enough current gain. Now, if you don't have the current gain, as suggested earlier, and that's been the catalyst for being approached by a couple of companies, you can Use AVRs to stretch somewhat the current density capability, but still short of what's going to be needed. A dispenser requiring a still very high current bus converter of 1.8 volt. So that's a strategy that's got Tradeoffs, as suggested earlier, it's got some good redeeming features, you know, flexibility in terms of partitioning domains. It's great at that, but not far from ideal in terms of overall power system figures. So we see a different approach and it's reflected in You know, the power system technology that we developed, parented. It's reflected in a chip as in converter housing package. Packaging technology that can only be made in chip fabs that are heavily protected by Viagra IP. And that's the strategy we're pursuing.

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

So Richard, this is Phil. So with regards to the cycle, the development cycle, if you like, If you go back just a few months to the APEC conference in San Antonio, Texas, you had a number of big OEMs and a few hyperscalers almost sort of lobbying the semiconductor audience on their AI product development in terms of saying, you know, here's what we need from you guys with regards to current density, which they were asking for something around three amps per millimeter squared, and package height. You know, in terms of thermal management and just assembly and yield issues of less than three millimeters. And you look at what's being developed and delivered to these OEMs and hyperscalers today is generation one VPD that comes nowhere near that request. And so you can imagine the excitement that's out there to engage with Vicor that has three amps per millimeter squared now moving to five amps per millimeter squared Next year, early next year, and a 1.5 millimeter package with very easy thermal management techniques. So there's a lot of companies that want to engage because they're sort of making do with the current Gen 1 VPD solution. So what we expect is engagement with a hyperscaler and a couple of OEMs now this rest of this year. I believe that those programs will start to, if you like, evolve into production systems sort of, I would say, late third quarter, fourth quarter of next year in terms of the ramps that are needed, which then, as Patrizio mentioned, allows us to move into our first fab. And then as we bring on the second fab in late 27, 28, you've now got the ramp that that follows through into that new facility with its expanded capacity. So that's what we expect to see.

Richard Shannon | Analyst, Craig Hallam Capital:

Great. Thanks for all that detail, guys.

Operator | Conference Call Operator:

Thank you. And our next question comes from Don McKenna with DB McKenna. Your line is open.

Don McKenna | Analyst, DB McKenna:

Hi, guys. Congratulations. And my question deals with the backlog. I was wondering how much of the significant increase there is attributed to the new licensing agreement, if any?

Patrizio Vinciarelli | Chief Executive Officer:

Relatively little. I'm sorry? Relatively little. So we have, as Phil pointed out, strengths coming from a number of different markets. Take as an example the ADE market. Our level of business with key customers there is a large multiple of what it has been in past years. And that's the result of the build-out with respect to AI. So that's just one example of growing demand coming from a multiplicity of end markets which we need to address.

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

Yeah, just a comment on the automatic test equipment market. That's a great story because It's also a factorized power architecture that relies on low noise performance and thin package technology. We've had a number of competitors come up to us in different shows saying, we just can't get VICO out of there because of the low performance, low signal to noise ratios that we are able to deliver, and also the thinness of the packages. We can't get anywhere near that. So it's a great market for us, and we're firmly entrenched in some of the biggest ATE companies, and that market is also growing with new entrants in overseas markets that we're also designing in our FPA solutions into. So that's going to continue to be a good growth story for us going forward.

Don McKenna | Analyst, DB McKenna:

Great. So I think what I'm hearing you say is it's existing customers with increased needs. Yep. and as for the bulk of this is coming from. But do you also see any of it being just the fact that as you're nearing capacity, people are putting in their orders for farther out deliveries?

Patrizio Vinciarelli | Chief Executive Officer:

Yes, early times has fleshed out a little bit. But they're generally speaking consistent with industry trends. Nowadays, what is... semiconductors, PC boards. Some of the key components within the industry have had to reflect the realities of demand exceeding capacity in a number of key areas, not just ours.

Don McKenna | Analyst, DB McKenna:

Good. Thank you very much.

Patrizio Vinciarelli | Chief Executive Officer:

Thank you.

Operator | Conference Call Operator:

Thank you. And as a reminder, to ask a question, please press star 1-1 on your telephone. The next question comes from Joe Dababny with Individual Investor. Your line is open.

Quinn Bolton | Analyst, Needham & Company:

Hey, guys. Thanks for taking my question.

John Dillon | Analyst, DMB Capital:

I was just wondering if you could speak a little bit about how the next generation advanced packaging architectures are going to help proliferate Gen 2 VPD across the industries.

Patrizio Vinciarelli | Chief Executive Officer:

It's just got, by far, the biggest current density, the lowest thermal resistance, the lowest noise. Phil pointed out earlier that in the DAT arena, we've had longstanding, when I say longstanding, I mean 40 years track record of dominance because of the unique signal integrity capabilities of our product. Those are also differentiators, believe it or not, in AI, in computing capabilities that more and more are relying on nodes with final lithography operating at lower and lower voltages, where signal integrity becomes More and more of activity of differentiators. So we are unique in these capabilities. And again, that uniqueness is not limited to one facet of the overall challenge. It involves many different facets, all of which are heavily protected in terms of the IP we've been developing over the last 10 years. So we feel very good about our opportunities going forward for all those reasons.

Richard Shannon | Analyst, Craig Hallam Capital:

Great, thanks.

John Dillon | Analyst, DMB Capital:

And then one more about the recent licensee that signed in May. Can you kind of speak on what would have happened to the supply chain if that license was not negotiated by them?

Patrizio Vinciarelli | Chief Executive Officer:

Well, so we have... a well thought out strategy with respect to protecting international property, enforcing an IP. As you know, in the US, a patent holder has a monopolistic right to the IP that is protected by patents, and their right is a right to exclude, among other things, importation of infringing products. And infringing products are not limited to power modules copied by unscrupulous competitors. It does involve the competitors' customers, the contract manufacturers. and those customers' customers, OEMs, hyperscalers, it's incumbent on them to make sure in the supply chain that intellectual property is respected. Inventors deserve to have their IP respected in the marketplace and we've been very focused on a very comprehensive strategy to make sure that our IP gets the respect it deserves. and I think we have made sides in that direction. There's more sides coming and as I mentioned earlier, I believe there's going to be a crossing of the cows in the industry taking place in the next couple of years.

Richard Shannon | Analyst, Craig Hallam Capital:

I appreciate that Patrizio, thank you.

Patrizio Vinciarelli | Chief Executive Officer:

Thank you.

Operator | Conference Call Operator:

This does conclude today's question and answer session and this will also conclude today's conference call. Thank you so much for your participation and you may now disconnect.