

NASDAQ:AIP Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good afternoon, everyone, and welcome to the Arteries' second quarter 2025 earnings call. Please note that this call is being recorded and simultaneously webcast. All material contained in the webcast is sole property and copyright of Arteries, Inc., with all rights reserved. For opening remarks and introductions, I will now turn the call over to Erica Mannion of Sapphire Investor Relations. Please go ahead.

Erica Mannion | Sapphire Investor Relations:

Thank you and good afternoon. With me today from our terrace are Charlie Janik, Chief Executive Officer, and Nick Hawkins, Chief Financial Officer. Charlie will begin with a brief review of the business results for the second quarter ended June 30, 2025. Nick will review the financial results for the second quarter, followed by the company's outlook for the third quarter and the full year of 2025. We will then open the call for questions. Before we begin, I'd like to remind you that management will make statements during this call that are forward-looking statements within the meaning of federal securities laws. These statements are based on management's current expectations and assumptions and involve material risks and uncertainties that could cause actual results or events to differ materially from those anticipated, and you should not place undue reliance on forward-looking statements. Additional information regarding these risks, uncertainties, and factors that could cause actual results to differ appear in the press release Arteris issued today and in the documents and reports filed by Arteris from time to time with the Securities and Exchange Commission. Please note, during this call, we will cite certain non-GAAP measures, including, among others, non-GAAP net loss, non-GAAP net loss per share, and free cash flow, which are not measures prepared in accordance with U.S. GAAP. These non-GAAP measures are presented as we believe that they provide investors with the means of evaluating and understanding how the company's management evaluates the company's operating performance. These non-GAAP measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with the U.S. GAAP. A reconciliation of these non-GAAP measures to the nearest GAAP measure can be found in the press release for the quarter ended June 30, 2025. In addition, for a definition of certain of the key performance indicators used in this presentation, such as annual contract value, confirmed design starts, and remaining performance obligations, please see the press release for the quarter ended June 30, 2025. These key performance indicators are presented for supplemental informational purposes only, should not be considered a substitute for financial information presented in accordance with GAAP and may differ from similarly titled metrics or measures used by other companies, securities analysts, or investors. Listeners who do not have a copy of the press release for the quarter ended June 30, 2025 may obtain a copy by visiting the investor relations section of the company's website. In addition, management will be referring to Q2 2025 earnings presentation which can be found in the investor relations section of the company's website under the events and presentations tab. Now I will turn the call over to Charlie.

Charlie Janik | Chief Executive Officer:

Thank you, Erica. And thanks to everyone for joining us on our call today. In the second quarter of 2025, we achieved record annual contract value plus royalties of 69.1 million. We exited the quarter with 99.3 million in remaining performance obligations, or RPO, highlighting the growing demand for our system IP technology. During the second quarter, we saw increased adoption, particularly in enterprise computing and automotive applications, driven largely by proliferation of AI computing, where the speed and reliability of data

movement enabled by Arteris is paramount. One of these strategic wins was AMD, a global leader in high performance and adaptive computing and a top 10 semiconductor company by revenue, which signed an agreement to utilize Arteris FlexGen smart network on chip IP, the technology we announced earlier this year. FlexGen will aim to provide high performance data transport in AMD chiplets, powering AI across AMD's broad portfolio which spans from data centers to edge and end devices. It will also be used in combination with AMD Infinity Fabric Interconnect, underscoring the increasing complexity of modern SOCs and chip-based architectures, which now require multiple highly specialized interconnects or NOCs. In addition to the AMD relationship, we now have over two dozen FlexGen installations at multiple customers, and anticipate that this product will contribute to our revenue over time. We believe FlexGen is a breakthrough technology in terms of productivity and optimization of SOC data movement. I'm proud that Arteris was recently recognized in the 8th Annual AI Breakthrough Awards, with FlexGen winning the AI Engineering Innovation Award from among the over 5,000 global nominations. FlexGen was recognized for its ability to successfully automate critical aspects of NOC IP creation, ensuring rapid, correct-by-design, interconnect fabrics that optimize performance and efficiency of AI-driven SOCs. Another recent AI-related customer win was Railchip, a fabulous semiconductor provider that specializes in developing data center ASICs and processors for high-bandwidth applications, including cloud servers, interconnect computing, and blockchain computing, among others. As the semiconductor industry accelerates efforts to increase performance and efficiency, especially driven by AI workloads, we are seeing a growing shift from traditional monolithic chips toward multi-die or chiplet architectures in the AI era. Consequently, during the second quarter, we announced an expansion of our multi-die solution which we believe delivers further foundational technology for rapid chiplet-based innovation. This includes broader standard support for the Universal Chiplet Interconnect Express, or UCIE, collaboration and extended support for ARM EMBA protocols, chiplet interface collaborations with Synopsys and Cadence, and RISC-V ecosystem support with partners such as Andes, Sci-5, and TenStore. Moreover, The Arteris expanded multi-die solution has been developed in close partnership with key customers who are increasingly designing chiplets such as Renesas. For example, Arteris technologies is used to provide underlying data transport and connectivity in a fifth generation of the Arcar automotive silicon developed by the high-performance computing SOC business unit. Arteris multi-die solutions help Renaissance deliver on the integration and scalability offered by multi-die SOCs as AI applications push the limit of performance and power efficiency. Lastly, as the number of triplets in multi-die SOCs increases, so does the underlying number of individual IP blocks. As such, it becomes increasingly important to properly and reliably package and prepare hundreds or even thousands of these IP components for effective integration and reuse across SOCs, chiplets, and complex IP subsystems. To capitalize on this trend in the second quarter, we announced Magellan Packaging, a new software product designed to automate IP packaging to simplify and speed up the process of assembling silicon chiplets and chips. Utilizing the latest version of the IEEE 1685 IP exact standard, Magilent Packaging is designed to work seamlessly with industry tools and silicon IP with the goal of helping companies meet increasing design demands while reducing costly errors and delays associated with integrating an ever-growing number of IP blocks and the associated rising system complexity. We believe the scale and scope of our opportunity remain robust, supported by our current products and strong product pipeline of new silicon system IP technologies as well as growing relationships with the largest and most advanced electronics companies in the world. Our customers continue to innovate in exciting high-growth areas, including across multiple applications of AI from data centers to the edge, autonomous driving, advanced communications, consumer, and industrial use cases. While we continue to diligently monitor the current global economic uncertainty, This did not lead to any deal cancellations or delays in the second quarter. In addition, we are seeing opportunities for customers to accelerate outsourcing of their system IP needs to our tariffs in order to accelerate their product's time to market, reduce their own costs, and increase their operating efficiencies. Nick will cover these impacts more when he discusses our guidance. With that, I'd like to turn it over to Nick to discuss our financial results in more detail.

Nick Hawkins | Chief Financial Officer:

Thank you, Charlie, and good afternoon, everyone. As I review our second quarter results today, please note that I'll be referring to GAAP as well as non-GAAP metrics. Reconciliation of GAAP to non-GAAP financials is included in today's earnings release, which is available on our website. Also, as a reminder, I will be referring to the 2Q 2025 earnings presentation, which can be found on the investor relations section of our company's website. under the events and presentations tab. We had a strong second quarter characterized by meeting or beating our guidance on all key financial metrics. Turn to slide five of the presentation. Total revenue for the second quarter was \$16.5 million, up 13% year over year, and at the top end of our guidance range. At the end of the second quarter, annual contract value, or ACB, plus royalties was \$69.1 million, up 15% year-over-year, above the mid-point of our guidance range, and a record high for the company. Remaining performance obligations, or RPO, at the end of the second quarter were \$99.3 million, representing a 28% year-over-year increase, once again a new high. Non-GAAP gross profit for the quarter was \$15 million, representing a gross margin of 91%. GAAP gross profit in the quarter was \$14.8 million, representing a gross margin of 89%. Now turning to slide six. Non-GAAP operating expense in the quarter was \$18.6 million, roughly flat sequentially, and 10% higher year over year. We continue to scale investments in our R&D and field application engineering teams that drive technology innovations and solution support. Total gap operating expense for the second quarter was \$23 million, representing a 12% year-over-year increase. As we look ahead, we plan to focus spending on strategically critical areas, in particular to help drive new product development enhance customer support, and expand the geographic and key account reach of our global sales team. We believe that these ongoing investments can help accelerate our top-line growth in the coming years. At the same time, we are delivering operating leverage by controlling our G&A spending, which has remained broadly flat on a long gap basis for approximately three years. Non-GAAP operating loss in the quarter was \$3.5 million in land without guidance and flat year over year. GAAP operating loss for the second quarter was \$8.2 million compared to a loss of \$7.4 million in the prior year period. Non-GAAP net loss for the quarter was \$4.4 million or diluted net loss per share of 11 cents. based on approximately 41.8 million weighted average diluted shares outstanding. Gap net loss for the quarter was \$9.1 million or diluted net loss per share of 22 cents. Moving to slide seven and turning to the balance sheet and cash flow. We ended the quarter with \$53.9 million in cash, cash equivalents and investments and have no financial debt. Free cash flow, which includes capital expenditure, was negative \$2.8 million for the second quarter, approximately at the midpoint of our guidance range. I would now like to turn to the outlook for our third quarter and the full year 2025 and refer now to slide eight. For the third quarter of 2025, we expect ACB plus royalties of \$69.5 million to \$72.5 million. Revenue of \$16.8 million to \$17.2 million with non-GAAP operating loss of \$3 to \$4 million and non-GAAP free cash flow of \$0.5 million to \$3.5 million. For the full year 2025, our guidance is as follows. ACB plus royalties to exit 2025 at \$72 million to \$78 million. revenue of \$66 million to \$70 million, non-GAAP operating loss of between \$10.5 million to \$15.5 million, and non-GAAP free cash flow of \$1 million to \$7 million. Our OPEX is currently running higher than previously expected, predominantly as a result of the weaker US dollar, especially against the euro. Although the US dollar has strengthened somewhat in recent days, In assessing our non-GAAP operating loss guidance, we have assumed that the recent prevailing foreign exchange rates remain at these levels for the remainder of 2025. Despite the near-term impacts of foreign exchange fluctuations, we remain encouraged by a strong deal execution, witnessed by the 28% year-over-year growth in RPO at the end of the second quarter. Reiterating the point raised earlier by Charlie, we are seeing promising signs of accelerated interest by some major customers to increase their outsourcing of system IP products to our terrace.

Moderator | Call Moderator:

With that, I will turn the call back to the operator for the Q&A portion of our call. Operator?

Operator | Conference Operator:

Thank you.

Operator | Conference Operator:

Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star, followed by the number one on your touchtone phone. you will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star followed by the number 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question. Your first question comes from the line of Joshua Bucklter from TD Callen. Your line is now open. Please go ahead.

Joshua Bucklter | Analyst, TD Cowen:

Hey, guys, thank you for taking my questions, and congrats on the results on the AMD announcement yesterday. I wanted to ask about that. Any details you can share on the scope? You know, the press release named pretty much all of their products. I believe AMD had been an existing partner of yours, so maybe you could talk through, you know, how they're using your IP, and, you know, they've been providing chiplets for a while, so what are you guys bringing to the table, and, you know, what led them to need to use you guys' more expansively going forward.

Operator | Conference Operator:

Thank you. We've lost Charlie.

Moderator | Call Moderator:

Charlie, you're on mute. Apologies. Sorry about that. Thank you.

Charlie Janik | Chief Executive Officer:

So, yes. So, in February, we announced the FlexShare product, which basically allows higher levels of productivity, and also some advantages in PPA in terms of wire length. Basically, AMD extensively evaluated this product, including some benchmarks against competitive alternatives. And they basically chose that as the best product for them going forward. So what we bring to the table is the new innovative FlexGen technology And, you know, AMD basically decided to apply it to a variety of products, including AI data center chiplets.

Joshua Bucklter | Analyst, TD Cowen:

Okay, thank you. And then for my follow-up, how should we think about this layering into the model from a timeline and magnitude perspective? I believe FlexGen has an ASP that's up 30% gen to gen. So, you know, how meaningful can this be to the model? Thank you and congrats again.

Moderator | Call Moderator:

Hi, Josh.

Nick Hawkins | Chief Financial Officer:

Thanks for joining. Great to speak to you again. We do secure a fairly decent number of what we refer to as whale deals, major deals in a year. This is one of those. When we put our guidance out at the end of the first quarter, this deal was already in the works. It's been in the works for many months. And so it was already baked into guidance at that point. I wouldn't want you to think this is the only big deal we have. We have one or two every quarter major deals. So this was already contemplated when we guided previously.

Moderator | Call Moderator:

It's very helpful, though. Okay, I will leave it there and thank you and congratulations again.

Joshua Bucklter | Analyst, TD Cowen:

Thanks.

Operator | Conference Operator:

Your next question comes from the line of Kevin here again from Rosenblatt Securities. Your line is now open. Please go ahead.

Kevin | Analyst, Rosenblatt Securities:

Yeah. Hey, Charlie and Nick. Congrats on the solid results. I'm just kind of wondering, can you comment on whether the decision by AMD was because they're looking to disband their, their knock internal team, or if this was more surrounding just kind of not being able to hit performance metrics. So they're looking for another solution.

Charlie Janik | Chief Executive Officer:

Not at all. Um, so, um, as we, we mentioned, uh, uh, FlexGen is going to work with the AMD's infinity fabric, which is their, uh, cash coherent, uh, solutions, which is made internally. Um, uh, so I, I basically the, uh, The decision that AMD came to is that they are going to continue to use their very capable cash-coherent fabric and that they are going to augment that with the Arteris technology for their non-coherent applications. So it's a mix-and-match approach.

Moderator | Call Moderator:

Got it. Okay. That makes sense.

Kevin | Analyst, Rosenblatt Securities:

Another follow-up. You know, you guys previously noted about 20 customers were experimenting with FlexGen. And, you know, you talked about how large customers are looking to accelerate adoption of our Terrace product. I mean, is there anything else that you guys can do to get these customers over the finish line? Or are you pretty much kind of waiting in the wings for them to make a decision?

Charlie Janik | Chief Executive Officer:

Yeah, I mean, you know, FlexGen involves, in certain senses, changes in methodologies. And so some of these evaluations are faster than others, but there's a fair number of flex gens in the wild, more than, as we said, more than two dozen. And we anticipate that they're going to result in sales starting in the second half in addition to the AMD deal.

Moderator | Call Moderator:

Okay, great, I appreciate that.

Nick Hawkins | Chief Financial Officer:

I'll just add something really quick, Kevin. This is Nick again. And welcome to Cole, thank you for joining. The validation by such a great company as AMD on this technology will certainly be helpful to our cause.

Moderator | Call Moderator:

Yeah, no, I completely agree. Having the pioneer of the chiplet error is huge. Okay, perfect.

Operator | Conference Operator:

I appreciate the color. Thanks, guys.

Operator | Conference Operator:

As a reminder, if you wish to ask a question, please press star 1. For your next question, it'll come from the line of Gus Richard from Northland. Your line is now open. Please go ahead.

Gus Richard | Analyst, Northland Capital Markets:

Yes, thanks for taking the question. Just in terms of, I'm sorry to keep on asking about AMD. is this primarily for, um, you know, triplet implementations or heterogeneous implementations?

Charlie Janik | Chief Executive Officer:

Um, I think it's, uh, it's going to be used in variety of products. Uh, but one of the ones that is certainly going to be used is on, uh, on AI, uh, uh, a data center, AI oriented chiplets, uh, chiplet SOCs. But, um, You know, it's a multi-licensed deal, and so it's going to be used on a variety of products. But chiplets are certainly one of them.

Gus Richard | Analyst, Northland Capital Markets:

Got it, got it. And then just can you give us a little bit of an update on sort of how many heterogeneous chiplet projects you see out there now?

Moderator | Call Moderator:

So there is...

Charlie Janik | Chief Executive Officer:

So what we see and what some other people see is a little bit different. There's about 600 to 700 SOCs out there. And at this time, we're seeing probably 30 projects right now. So there's probably more than that. But what we see is about 30. So it's about 5% of the total. But we are anticipating that for the next couple of years, chiplet projects are going to be probably 30% of the overall SOC design starts.

Moderator | Call Moderator:

But today we see maybe 5% of that number.

Gus Richard | Analyst, Northland Capital Markets:

Okay, and that's chiplets in general, not heterogeneous chiplets.

Charlie Janik | Chief Executive Officer:

So that's now you're asking a question because homogeneous chiplets have been in production for a while, right? This would be more in the heterogeneous chiplet category.

Gus Richard | Analyst, Northland Capital Markets:

Got it. And then one for you, Nick, just and I'll go, you know, just looking at RPO and a couple other things, it looks like Book-to-bill was probably north of 1.5 in the quarter. Is that a fair guess?

Nick Hawkins | Chief Financial Officer:

Yeah, I don't really monitor book-to-bill specifically, and so I certainly wouldn't comment on that one, Gus. But it is a very positive indicator to have your leading indicator of growth, which is the way we characterize RPO and essentially is our backlog of growth. future revenue to grow to nearly \$100 million in 28% year-over-year is a great outcome.

Operator | Conference Operator:

Got it. Thanks so much.

Operator | Conference Operator:

There are no further questions at this time. Please continue, Mr. Charlie Janak.

Moderator | Call Moderator:

Yes. So we'd love to thank you for your interest in Arteris.

Charlie Janik | Chief Executive Officer:

We look forward to meeting with you in the upcoming investor conferences that we're participating in through the next couple of months. And we look forward to updating you all on our business progress in the course to come. So thank you very much for your support.

Operator | Conference Operator:

Ladies and gentlemen this concludes today's conference call.

Operator | Conference Operator:

Thank you for your participation. You may now disconnect.