NASDAQ:AIP Q3 2025 Earnings Call Transcript

Generated on 6/17/2026

Operator | Conference Operator:

This call is being recorded and simultaneously broadcast. All materials contained in the webcast is sole property and copyright of Arteris Inc. with all rights reserved. For opening remarks and introductions, I will now turn the call over to Erica Mannion of Sapphire Investor Relations.

Operator | Conference Operator:

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 third quarter ended September 30, 2025. Nick will review the financial results for the third quarter, followed by the company's outlook for the fourth 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 materially differ 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 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 US GAAP. The non-GAAP measures are presented as we believe 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 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 end of September 30, 2025. In addition, for a definition 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 September 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, security analysts, or investors. Listeners who do not have a copy of the press release for the quarter ended September 30, 2025 may obtain one by visiting the investor relations section of the company's website at ir.arteris.com. In addition, management will be referring to the third quarter 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 CEO, Charlie Janik.

Charlie Janik | Chief Executive Officer:

Thank you, Erica. And thanks to everyone for joining us on our call today. In the third quarter of 2025, we achieved yet another record annual contract value plus royalties of $74.9 million, resulting in 24% year-over-year growth. We saw increased product adoption in chiplets and SOCs across multiple vertical markets. AI applications accounted for over half of our licensing dollars in the third quarter, reflecting the growing adoption of Altera's system IP technology from data centers to the smart edge. We continue to see growing adoption of our product portfolio by top technology companies. An example of this is Altera, which selected Altera's technology portfolio to streamline design workflows, optimize data movement, and enable intelligent computing across data center, communications, vision, industrial applications, robotics, aerospace, and defense applications. This includes our network on-chip IP products, including NCORE and FlexGen, and the Magellan platform for IP block integration and hardware software integration automation, which Altera plans to use in designing their next generation of FPGA and SOC FPGA solutions. Speaking of FlexGen, last quarter, we announced that AMD licensed the Smart Knock IP to provide high performance data transport in AI chiplets across AMD's broad portfolio from data centers to edge devices. I'm happy to note that in the third quarter, AMD has ordered additional incremental licenses. In addition to the Altera and AMD relationships, we added four other new FlexGen customers in the third quarter. Within the automotive sector, FlexGen was deployed by DreamChip, a custom SLC design house for high-end automotive semiconductor design. Additionally, a leading automotive OEM adopted FlexGen for next-generation EVs. Within the industrial sector, NanoExplore, a provider of radiation-hardened silicon technology serving the aerospace, defense, avionics, and industrial markets, licensed FlexGen SmartNOC IP to address the demanding mission-critical computing requirements in space while supporting their product performance, team productivity, device reliability, and meeting the underlying area and cost targets. This represents another example of our products being used not only for applications on Earth, but increasingly in terrestrial orbit where performance, safety, reliability, and security are essential. These examples illustrate the broad applicability of our new FlexGen SmartNOC IP, helping design teams deliver on expanded needs of chiplets and SOCs. Additionally, we expect demand to scale, with rising design complexity and the move to advanced foundry nodes, particularly 5 nanometer, 3 nanometer, 2 nanometer, and as we head into the angstrom era of silicon. As the semiconductor industry accelerates efforts to increase performance and efficiency, especially driven by AI workloads at data centers and the edge, we are continuing to see a growing shift from traditional monolithic chips toward chiplets for multi-die SOC architectures, particularly for AI infrastructure and data center applications. One of the key chiplets is the IOHUB chiplet, which controls data movement across heterogeneous multi-die SOCs. 2B systems license our NCore and FlexNoc interconnect IPs to develop just such an IOHUB chiplet where Arteris technology serves to control multi-die data traffic, meeting the high bandwidth, low latency energy efficiency, and total cost of ownership objectives, while meeting the needs of enterprise computing in data centers and cloud infrastructure. In the quarter, we also saw increased adoption of chiplets for high-end automotive applications, including our recently expanded multi-die solution. For example, one of our advanced automotive semiconductor customers shifted from a single chip to multi-die SOC architectures for their next generation ADAS design, leveraging N-Core and FlexNoc IPs for underlying data movement. Aside from various automotive semiconductor companies, we also saw expanded adoption of Arteris technology by automotive OEMs. Two of the top five EV automotive OEM companies expanding their use of silicon-proven Arteris technology with functional safety for their next-generation vehicles, which increasingly include a wider array of advanced electronic functionality. Given the accelerating demand for increasingly advanced chiplets and chips, from the AI surge in the high end to the growing needs of advanced microcontrollers, the need for more specialized computing is becoming increasingly evident. This trend drives a broad range of specialized processors, or XPUs, for a growing number of applications by providers who increasingly rely on Arteria's technology for their underlying connectivity and data movement. With our growing ecosystem, we recently announced an expanded collaboration with Alibaba Demo Academy, enabling better integration and optimized performance between their RISC-V CPU cores and our data movement system IPs. This collaboration is intended to further enable mutual customers to more efficiently design Edge AI server communications and automotive chips. Such ecosystem collaborations help enhance support for end customers, enabling them to accelerate their pace of innovation, with recent example being

Accelera AI, a provider of purpose-built hardware acceleration technology for AI inference. They recently expanded the use of Arteris to help accelerate computer vision for edge devices using our technology to help achieve high bandwidth, low latency, and scalability requires to optimize their next generation inference products. The need for ecosystem collaboration is also evident as industry standards continue to evolve. In particular, AI data center infrastructure needs are rapidly evolving, driving demand for purpose-built solutions that can better support rapidly expanding AI workloads. To better meet the associated demand from customers, Arteris joined the Ultra Accelerator Link Consortium, or UA-Link. The goal of this organization is to establish an optimized scale-up ecosystem across multiple AI accelerators, with Arteris NOC IPs serving as data movement transport in chiplets and SOCs. We joined with other companies in the consortium, such as AMD, Astera Labs, AWS, Cisco, Google, HP Enterprise, Intel, Meta, and Microsoft, all of whom deal with high-end computing, and some of whom are requesting related support in our products. Lastly, I'm proud that Arteris Continuous Innovation was recognized with yet another award, this time as the winner of the most innovative technology company of the year, by the 22nd Annual International Business Awards, while also being recognized for new FlexGen Smart Knock IP and Magilum Registers integration automation software product, both announced earlier this year. We believe the scale and scope of our opportunity to remain robust, supported by our current products and strong pipeline of new data movement system IP technologies, as well as growing relationships with the largest and most advanced electronics companies in the world, in collaboration with a broader ecosystem. Our customers continue to innovate in exciting high growth areas across multiple applications from AI data centers to the edge, autonomous driving, advanced communications, consumer and industrial use cases. Many of these customers are increasingly turning to our products and solutions to support their innovative designs. With that, I'll 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 third 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 3Q 2025 earnings presentation, which can be found in the investor relations section of the company's website under the events and presentations tab. We had a strong third quarter, meeting or beating our guidance on all financial measures. Turning to slide five of the presentation, total revenue for the third quarter was $17.4 million, up 5% sequentially and 18% year-over-year, and above the top end of our guidance range. Notably, trailing 12-month variable royalties was 36% higher year-over-year. At the end of the third quarter, annual contract value plus royalties was $74.9 million, up 24% year-over-year, above the top end of our guidance range and at a new record high. Remaining performance obligations, which is our contracted future revenue, at the end of the third quarter was $104.7 million, representing 34% year-over-year increase, a new high and exceeding the $100 million milestone for the first time Non-GAAP gross profit for the quarter was $15.9 million, representing a gross margin of 91%. GAAP gross profit for the quarter was $15.6 million, representing a gross margin of 90%. Now turning to slide six. Non-GAAP operating expense for the quarter was $19.5 million. We continue to reinvest a portion of our top-line growth into technology innovations, solution support, and our global sales team. Total gap operating expense for the third quarter was $24.4 million. We believe that our ongoing investments will help accelerate our top-line growth in the coming years. At the same time, we are delivering operating leverage by controlling G&A spending, which has now remained broadly flat on a non-gap basis for over three years. This has resulted in a 15% improvement of non-GAAP operating expense as a percentage of revenue for the year to date compared to the same period in 2023. Non-GAAP operating loss in the quarter was $3.5 million, in line with our guidance. GAAP operating loss for the third quarter was $8.7 million compared to a loss of $7.9 million in the prior year period. Non-GAAP net loss for the quarter was $3.8 million, or diluted net loss per share of $0.09, based on approximately 42.7 million weighted average diluted shares outstanding. GAAP net loss in the quarter was $9 million, or diluted net loss per share of $0.21. Moving to slide seven, I'm turning to the balance sheet and cash flow. We ended the quarter with $56.2 million in cash, cash equivalents and investments, and we have

no financial debt. Free cash flow, which includes capital expenditure, was positive $2.5 million for the third quarter, above the midpoint of our guidance range. I would now like to turn to our outlook for the fourth quarter and the full year 2025 and refer now to slide eight. For the fourth quarter 2025, we expect ACB plus royalties of $74 million to $78 million, revenue of $18.4 million to $18.8 million, with non-GAAP operating loss of $2.3 million to $3.3 million, and non-GAAP fee cash flow of $0.2 million to $3.2 million.

Operator | Conference Operator:

For the full year 2025, our guidance is as follows.

Nick Hawkins | Chief Financial Officer:

ACB plus royalties exit 2025 at $74 million to $78 million, an increase of $1 million compared to our prior guidance. Revenue of $68.8 million to $69.2 million, also an increase of $1 million compared to our prior guidance. Non-GAAP operating loss of between $12.5 million to $13.5 million. and non-GAAP free cash flow of $2.5 million to $5.5 million. We remain encouraged by our strong deal execution, witnessed by the 34% year-over-year growth in RPO at the end of the third quarter. We are seeing promising signs of accelerated interest by some major customers to increase their outsourcing of system IP products to our tariffs, which we believe will help accelerate growth in our license and loyalty revenue, ACV plus royalties, RPO, and positive free cash flow. With that, I will turn the call back to the operator for the Q&A portion of the call.

Operator | Conference Operator:

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 two. If you are using a speakerphone, please lift the handset before pressing any keys.

Operator | Conference Operator:

One moment please for your first question. Your first question is from Kevin Garrison from .

Operator | Conference Operator:

Please go ahead.

Kevin Garrison | Analyst:

Yeah, hey, Charlie and Nick, congrats on the results and the Altera announcement. Can you just talk a little bit more about Altera? Are they fully away from using internal interconnect teams, or is there still more opportunities for you guys to expand there?

Charlie Janik | Chief Executive Officer:

I think there's more opportunities. Basically, the application is for FPGAs and FPGASOCs. So Altera is using their own interconnect in the FPGA matrix. and then we are used essentially in the SOC part. But Altera business is going to continue to evolve and grow, and we believe that there's future opportunities, but this is a major milestone because Altera, as they spun out of Intel, chose to go with Arteris for their primary system IP requirements. But yes, there is more potential going down the road. Okay, perfect.

Kevin Garrison | Analyst:

And then... since the initial discussions with AMD and the initial order announcement, it seems like it took about one quarter, maybe a little bit longer for them to expand the use of your product. So what were they kind of most impressed with that led to increasing usage in such a short timeframe?

Charlie Janik | Chief Executive Officer:

Yeah. I mean, uh, AMD is a big company. Um, the, the deal in the, uh, uh, the second quarter, uh, was, uh, for their, uh, basically their central engineering group. And, uh, The third quarter deal was basically for another group. And Altera is, I'm sorry, AMD has many groups for us to work with. And so there are also additional opportunities at AMD. And we're very much looking forward to helping them accelerate their chip deliveries.

Kevin Garrison | Analyst:

Got it. Got it. Okay. And just one more, if I, if I can, you talk, can you just talk a little bit more about the importance of reliability and safety when it comes to interconnects and the importance of it in, you know, some end markets like space, as you guys mentioned. And, you know, I think you guys have done a very good job on this front, but do you, do you see this as this focus as really a competitive advantage for you guys? Oh, absolutely.

Charlie Janik | Chief Executive Officer:

I mean, Basically, all the important data goes through our network on chips. Basically, if that has problems or doesn't work, the chip doesn't work. Customers are very risk averse in choosing system IP solutions because any problems there can cause major delays in tape outs and field problems. You know, we're being recognized as, you know, very much a silicon-proven company. I think now our installed base has shipped something like 3.9 billion SOCs, and they all work. And probably some of the stuff you use daily probably has arterious interconnect in it. So, yes, we are very much focused on reliability. We're very much focused on quality because if the system IP doesn't work, the chip doesn't work.

Operator | Conference Operator:

Yep, got it, got it. Okay, perfect. I appreciate the color. Congrats again. Thank you. The next question is from Kevin Cassidy from Rosenblatt Securities. Please go ahead.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Yeah, thanks for taking my question, and congratulations on the great momentum. Just on the UA-Link consortium, what kind of timing could we expect for licenses to come out of that consortium? consortium and some of the players there?

Charlie Janik | Chief Executive Officer:

Well, some of the players are already customers, but basically the objective of the UA-Link consortium is to essentially scale up data center solutions. And so we're basically developing technology to support that, and we're already involved in some of those designs. but we're basically following that consortium's protocol in order to support the data center scale-up efforts that are pioneered by the companies that we mentioned.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, great. And with the penetration you're getting within AMD and combining it with the Altera announcement, is there opportunities for Xilinx, or is that already included in your AMD discussion?

Charlie Janik | Chief Executive Officer:

Well, Xilinx is an important part of AMD. And in fact, Xilinx was the first customer that was involved with us prior to the AMD acquisition. So Xilinx has been a longtime user of Arteris.

Operator | Conference Operator:

Okay, thank you. Your next question is from Gus Richard from Northland.

Operator | Conference Operator:

Please go ahead.

Gus Richard | Analyst, Northland Securities:

Yes, thanks for taking the question. Real quick, you know, you've had a number of design wins for a while, and just wondering, you know, the royalty relative to most mature IT companies is relatively low. I'm just wondering when do you expect that to start to accelerate?

Kevin Cassidy | Analyst, Rosenblatt Securities:

Blake, do you want to take that one?

Nick Hawkins | Chief Financial Officer:

Yep. I will. Hi, Gus. Welcome to the call. It's a great question because, as you and I have discussed in the past, an increasing rate of customer design starts is a great indicator of future royalty growth because Typically, there's somewhere between a three to six year lag between start of a design and mass production and scale. And it can take even another couple of years to get to get up to full scale after the mass production starts. So so it is definitely a heavy link between the two. We're already seeing that, and we're already seeing

the beginning of the inflection on royalties. There's one you'll see in our investor deck, our Q3 investor deck. There's a new additional piece of information on royalties. And what's very interesting is, number one, the growth of royalties, variable royalties, is quite impressive. And in fact, the growth year over year for the variable royalties in the trailing 12 months to the end of September compared to the prior 12 months ending September 30, 2024 was up 36%, which is in line with what we've been saying in terms of the royalties growing at roughly 2x the rate of licenses. And what's particularly interesting in that chart you'll see in the investor deck is that If you go back to 2020, which is quite an interesting start point, because that's when we were dominated in royalties from PySilicon, which has now, of course, gone to zero, we now have a higher rate of variable royalties. In fact, we have all year since the days of PySilicon back in 2020. And now, instead of it being a one-trick pony where we had one customer making up 90% of our variable royalties. We now have five customers who between them have a greater royalty stream than than the one high silicon. So we've got more diversity. We've got more people who are now the majors. So it's five majors and then another 50 smaller players. And so it's all up and to the right and growing very nicely. So we are starting to see that. I do see there's an increasing inflection point as we go through the next couple of years. So by 2028, you'll see an even faster rate of acceleration.

Gus Richard | Analyst, Northland Securities:

God, that was super helpful. And then, Charlie, for you, you guys talk about the top tech companies that you've penetrated. I was wondering if they, you know, just for everybody, define what those companies are and then how many you've at this point penetrated. And then specifically in the AI ASIC crowd, you know, are you starting to penetrate those both U.S. and Taiwan?

Charlie Janik | Chief Executive Officer:

Yeah, I mean, we, you know, basically we define the large companies as sort of top 20 semiconductors companies and then basically another, you know, 20 of the largest system electronics companies, right? So that's kind of jokingly referring to that as the Arteris Index. And, you know, we have, I would say, more than 50% of those companies as customers, but not all of them are huge customers, right? So there's still a long way to go in terms of expansion of our business. But, you know, obviously with the AMD and Altera announcement and there's a couple others who don't let us announce who they are. one of which we also closed in the Q3. We did our best to be able to announce them, but they did not let us. So I think our progress in the top 40 largest technology companies is quite good, but there's long ways to go. It's about a $1.2 billion market, and we're about $68 million this year or something like that. So there's a long way to go.

Gus Richard | Analyst, Northland Securities:

Okay, got it. And then the Lord Baltimore of questions. You know, when I go through cash flow and balance sheet, blah, blah, and, you know, it looks like bookings were in the zip code at $32 million in the quarter, booked a bill about $1.8. So, Nick, am I in the right zip code?

Nick Hawkins | Chief Financial Officer:

Yeah, I don't want to comment on bookings. Otherwise, we open up a... Pandora's box of future disclosure. So bookings is, as you know, fairly lumpy, because we have very large customers these days. So that can really create a false precedent if we start disclosing that. So I'll have to allow you to do your own math on bookings, Gus.

Operator | Conference Operator:

Okay. I figured, thanks, I'll pass it on. Your next question is from Joshua Bookalter from TD Cowan.

Operator | Conference Operator:

Please go ahead.

Joshua Bookalter | Analyst, TD Cowen:

Hey, guys. Thank you for taking my question. Charlie, I thought your comments in the prepared remarks about seeing more traction from AI applications and specifically in the data center were interesting. Obviously, a lot's happened in the AI space over the last few months. Could you maybe level set us on how much of your opportunity over time you see coming from actually in data center versus you know, edge device, edge and embedded devices where I think, you know, that's been your bread and butter for a while. Thank you.

Charlie Janik | Chief Executive Officer:

Yeah. I mean, um, basically, uh, you know, our thesis is that over time, pretty much all electronic endpoints or edge devices are going to be connected to the data center. And so for each, uh, endpoint or edge device, there is some ratio of blades in the data center. And as everything becomes connected to the data center, you know, these, uh, the number of chips that's actually in these data centers goes to a very large number. So we're sort of following customer demand, and there's just a lot of attention on AI workloads in a data center. There's a lot of project starts. Obviously, NVIDIA is a very, very major player and will continue to be a major player. But some of these... System houses are also designing some of their own chips for specific data acceleration of specific workloads. They're working on specific AI workloads and those kinds of things. So we see that as a major opportunity and we're working with those customers and we're increasingly starting to pivot our engineering to address the issues that are important to these data center companies, hyperscaler companies, that are handling the high-end AI workloads. So over time, I mean, I think data center will be somewhere between 25% to 30%, maybe 35% of our business. But right now, AI represents about 50% of all the design stars that we're involved with. So right now, there's a bit of a design star bonanza. But on a long-term basis, I would expect it to be about probably 35% or so.

Joshua Bookalter | Analyst, TD Cowen:

Thank you for all the color there. Maybe, Nick, could you provide any comments or color on, you know, it seems like you're getting a lot of good traction from FlexGen, which comes with higher ASP on the royalty and I'm guessing the licensing side as well. You know, when should we expect that to start being a sort of meaningful needle mover in the model? Thank you both and congrats again.

Nick Hawkins | Chief Financial Officer:

Josh, just to be clear, are you asking that question specifically regarding royalties or more generally on license revenue?

Joshua Bookalter | Analyst, TD Cowen:

I was more on the royalty side.

Nick Hawkins | Chief Financial Officer:

Yeah, so, I mean, FlexGen is accretive to both ASP and therefore license, but it's also accretive to royalties because it has more competence as a product than it's the more junior, the FlexNot5, that doesn't have the automation feature. So, yes, if you look at somebody, for example, who's just kicked off a FlexGen cycle or FlexGen deal with us. Most of those have come from the mid of this year onwards. And now you saw we had another four in addition to Altera and AMD in the third quarter. So it very much depends on the use case. There are some, most of the use cases right now are more in the server an FPGA environment, which don't have huge volumes, as you know. There are some which are more involved in higher volume. We're early stages yet. We do expect a lot more penetration from FlexGen into some of the other areas that are perhaps higher volume. And, of course, the biggest royalty area for us, which is about half of our total royalties, is actually from the automotive market. And so if you use FlexGen and automotive, for example, or creative design today, and you start the design, it would be 2030 to 2031 before we started seeing the royalties from that. So there's a lot of pipe stoking going on in royalties from this.

Operator | Conference Operator:

Thank you. There are no further questions at this time. Mr. Janik, please proceed with closing remarks.

Charlie Janik | Chief Executive Officer:

Well, thank you, everyone, for your interest in our terrace. We're very excited about the current quarter, and we look forward to meeting you with you in the upcoming non-deal load shows and investor conferences in the quarters ahead and updating you on our business progress. Thank you very much.

Operator | Conference Operator:

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.