NASDAQ:AIP Q4 2025 Earnings Call Transcript

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Emily Beynon | Transcriptionist:

Thank you. Thank you. © transcript Emily Beynon ... ... Thank you. Thank you.

Operator | Conference Call Operator:

Good afternoon, everyone, and welcome to the R30's fourth quarter and full year 2025 earnings call. Please note this call is being recorded and simultaneously webcast. All material 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. Please go ahead.

Erica Mannion | Director of Investor Relations, Sapphire Investor Relations:

Thank you and good afternoon. With me today from Arteris 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 fourth quarter ended December 31, 2025. Nick will review the financial results for the fourth quarter and full year 2025, followed by the company's outlook for the first quarter and full year of 2026. 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 the 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 the U.S. GAAP. The 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 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 December 31, 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 December 31, 2025. These key performance indicators are presented for supplemental informational purposes only and 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 December 31, 2025 may obtain a copy by visiting the investor relations section of the company's website. In addition, management will be referring to the fourth 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, Arteris Inc.:

Thank you, Erica. And thanks to everyone for joining us on our call today. In the fourth quarter of 2025, we achieved many company records and milestones, including yet another record annual contract value plus royalties of 83.6 million, which represents a 28% year-on-year increase. This success was driven across our major vertical markets with the largest impacts in enterprise computing, automotive, and consumer electronics markets, but also across other applications, including communications, industrial, and aerospace and defense. Overall, we are seeing expanding proliferation of AI-driven semiconductor designs from data center to the edge, as well as physical AI, which in turn drives increased deployment of Arteris technology. Given the combination of the rising demand for efficient data movement in semiconductors in the AI era and our expanding set of innovative products that successfully meet the growing needs of our customers, I am proud to announce that our customers have now shipped over 4 billion chips and chiplets, incorporating our terrorist network on-chip IP as the underlying interconnect. This continues to positively impact our royalty revenue stream. On January 14th, we closed the acquisition of Cycuity, a leading provider of semiconductor cybersecurity assurance products. SciQity brings a rich history of strong collaborations with major commercial semiconductor companies, as well as companies in the national security sector, such as Booz Allen Hamilton and National Laboratories. The addition of SciQity's technology and expertise strengthens the Arteris product portfolio, enabling chip designers to analyze and improve security in IP blocks, chiplets, and SOCs. Security products enable the early detection of cybersecurity risks in the semiconductor hardware and firmware that serve as the foundation for all application software. The security products enable customers to uncover hardware security weaknesses and potential vulnerabilities and help to reduce associated security risks during the design phase prior to silicon manufacturing and end-device production deployments. According to the National Institute of Standards and Technology, or NIST, newly reported cybersecurity silicon vulnerabilities grew by over 15 times in the last five years, with the unreported number likely much higher. The security acquisition will help us to address market concerns about the rapidly increasing volume of sophisticated cyber attacks targeting the vast amounts of data moving through semiconductors, from AI data centers to networks and a broad range of devices across the digital ecosystem. There is a growing need for cybersecurity domain expertise and proven technology, which security acquisition brings to our terrace, enabling us to proactively help customers address cybersecurity in processors and other silicon devices. We believe this product line can be used by all of our existing customers as well as others in a broader semiconductor and systems ecosystems, they are not current customers. Our vision is to bring improved hardware security and advanced vulnerability testing to all SOCs, thereby extending our terrace reach meaningfully in terms of new customers and new entry points for every design, regardless of complexity. Moving on to our organically developed products, all of which experienced strong customer adoption in 2025. LexGen, our AI-driven smart NOC IP product announced a year ago, saw a strong uptick in customer adoption and has now been licensed for over 30 production device deployments across each of our vertical end markets with customers including AMD for AI chip design, DreamChimp for automotive, and NanoExplorer for aerospace applications. FlexGen's initial success reflects the growing need for optimized chip designs for lower power usage and latency combined with accelerated development cycles. This is particularly true for complex SoCs and CUPLA designs in today's AI era, which have high performance and low power goals and tight market windows in which to deliver silicon. Accordingly, we expect FlexGen momentum to continue in 2026. In the second half of 2025, we also saw strength in the licensing of our cash coherent interconnect IP product and core across various edge and server applications. For example, in early fourth quarter 2025, Altera selected anchor and flexion products from our terrorists to advance intelligence computing from cloud to edge applications. This significant order, underscores Arteria's ability to support large customers across multiple of their product generations, an ability that drives our 90% plus customer retention rate. We continue to see growing adoption of our product portfolio by top technology companies and large enterprises. An example of this is NXP, which delivers purpose-built, rigorously tested technologies that enable devices to think and act intelligently. We recently announced that NXP has expanded its use of Arteris products to accelerate edge AI efforts. NXP is deploying Arteris more broadly across its AI-enabled silicon solutions, including for intelligent vehicles, advanced industrial systems, and secure seamless customer experiences on the edge. This includes our mCore and FlexNOC network ownership IPs, CoderCache last-level cache IP, and Magellan SoC integration software. NXP is using these products to develop latest AI-driven silicon designs, including SoCs, neural processing units, or NPUs, and microcontrollers, or MCUs, with safe and secure high-performance data movement. Another example of a recent win is Black Sesame, which also licenses both cache-coherent and non-coherent interconnect IPs, for their devices' dual needs, with N-Core and FlexNoc being used to address the automotive industry's demand for automated driving silicon. Black Sesame develops a broad range of automotive semiconductors that spans from high-performance SOCs for AI autonomous driving to cross-domain SOCs used in a broad range of vehicles. Arteris technology provides the high-performance network-on-chip connectivity with safety that is critical for designing tomorrow's complex automotive SOCs and achieving time-to-market requirements. Power consumption is a key factor in new SOC designs, particularly those supporting AI workloads. In the fourth quarter, Blaze deployed our TerraSystem IP for their scalable, energy-efficient AI silicon. The Blaze AI platform delivers a programmable, energy-efficient foundation for hybrid AI deployment models spanning edge, and cloud infrastructure, which enables users to build multimodal AI inference for smart vision, sensing, acoustic monitoring, and real-time language understanding at the edge for industrial transportation and smart surveillance applications. By using Arteris Interconnect IP, Blaze can ensure efficient data movement along with reduction in power consumption. AI is also increasingly driving chiplet projects. The number of chiplet projects incorporating Arteris technology more than tripled over the past two years. All of these projects require state-of-the-art Arteris technology and close collaboration with multiple ecosystem partners, which has been a major focus for us over the years. In the fourth quarter, we announced that Arteris is a founding member of the Chassis program, which aims to create an open automotive chiplet platform. Led by Bosch, this initiative includes automotive OEMs such as BMW, Renault, and Stellantis, as well as automotive suppliers, semiconductor companies, EDA and software providers, and research entities, with Arteris providing network on chip expertise and chiplet and multi-die SOC interconnect technology. Arteris is also part of Cadence's recently announced strategic collaboration with ARM Samsung Foundry and other IP partners to deliver pre-validated chiplet solutions. The goal of this initiative is to reduce engineering complexity and accelerate time to market for mutual customers developing chiplets targeting physical AI, data centers, and high-performance computing or HPC application with our Terrace Interconnect IP enabling the underlying data movement. Our customers continue to innovate in exciting growth areas such as AI-enabled chips and chiplets from data centers to edge devices. The same is true for physical AI, which is based on foundation of silicon, combining computing, sensing, and data movement to interact with the real world. Physical AI requires a combination of quality, high performance, energy efficiency, functional safety, and cybersecurity, among others, which is supported by our products. Overall, Arteris is in a strong position to support semiconductor applications in the AI era across enterprise computing infrastructure, autonomous vehicle decision making, advanced communication, smarter consumer electronics, industrial automation, and aerospace and defense use cases. With the addition of Cycuity to our product offering, we have the opportunity to become a leader in SOC security solutions for our existing customer base, as well as a door opener to other companies who design SOCs, thereby helping us to realize our mission of enabling every design with leading-edge arterious technology. With that, I'll turn it over to Nick to discuss our financial results in more detail.

Nick Hawkins | Chief Financial Officer, Arteris Inc.:

Thank you, Charlie, and good afternoon, everyone. As I review our fourth quarter and folio results for 2025 today, please note I'll be referring to GAAP as well as non-GAAP. 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 4Q 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 fourth quarter, beating our guidance on all financial measures. The security acquisition closed in January 2026. Therefore, the security financial performance is not included in any of our reported results for 2025. However, our guidance for the first quarter and the full year 2026 incorporates the expected financial results of the security business from January 14, 2026 onwards. Turning to slide five of the presentation, total revenue for the fourth quarter was $20.1 million. up

16% sequentially and 30% year-over-year and above the top end of our guidance range. For the full year 2025, total revenue was $70.6 million, 22% higher year-over-year. Notably, variable royalties was 50% higher year-over-year with the fourth quarter setting a new record. Our royalty stream today is fueled by a balanced mix of customers across all our vertical markets, with the number of large royalty reporters crippling in the last two years. At the end of the fourth quarter, annual contract value plus royalties was $83.6 million, up 28% year-over-year, above the top end of our guidance range, and at a new record high. Remaining performance obligations, or RPO, which is our contracted future revenue, at the end of the fourth quarter totaled $117 million, representing a 32% year-over-year increase, another record high for the company. As disclosed in the notes to our financial statements, we expect approximately half of our RPO will be recognized as revenue in 2026. This projection excludes cancelable and non-cancelable FSAs. Non-GAAP gross profit in the quarter was $18.5 million, representing a gross margin of 92 percent. GAAP gross profit in the quarter was $18.3 million, representing a gross margin of 91 percent. For the full fiscal year, non-GAAP gross profit was $64.8 million, representing a gross margin of 92 percent. GAAP gross profit was $63.7 million, representing a gross margin of 90 percent. Now turning to slide six. Non-GAAP operating expense in the quarter was $20.8 million. We continued to reinvest a portion of our top-line growth into technology innovations, customer solution support, and our global sales team. Total GAAP operating expense for the fourth quarter was $26.7 million, which included acquisition-related expenses of $1.4 million in the fourth quarter. For the full fiscal year, non-GAAP operating expense, which excludes the security acquisition expenses, was $77.2 million, representing an increase of 14% from the prior year. This was broadly in line with our long-term goal to manage the rate of increase in non-GAAP operating expense to around half that of the rate of increase in revenue. GAAP operating expense for the year was $96.8 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-GAAP basis for over three years. This has resulted in eight percentage point year-over-year improvement on non-GAAP operating margin. Non-GAAP operating loss in the quarter was $2.2 million, also above the top end of our guidance range. For the full 2025 fiscal year, non-GAAP operating loss was $12.5 million, representing a $2.4 million improvement over the result for the prior year, and at the top end of our guidance range. GAAP operating loss in the fourth quarter was $8.5 million, compared to a loss of $7.1 million in the prior year period. For the full year, GAAP operating loss was $33.1 million. Non-GAAP net loss in the quarter was $2.3 million, or diluted net loss per share of 5 cents, based on approximately 43.7 million weighted average diluted shares outstanding. GAAP net loss in the quarter was $8.5 million, or diluted net loss per share of 19 cents. For the full fiscal year, non-GAAP net loss was $14.1 million, or diluted net loss per share of 33 cents, based on approximately 42.3 million weighted average diluted shares outstanding. Gap net loss for 2025 was 34.7 million dollars or diluted net loss per share of 82 cents. Moving to slide seven and turning to the balance sheet and cash flow. We ended the year with 59.5 million dollars in cash, cash equivalents and investments and we have no financial debt. Free cash flow, which includes capital expenditure, was positive $3 million for the fourth quarter and positive $5.3 million for the full year, close to the top end of our guidance range. I would now like to turn to our outlook for the first quarter and the full year 2026 and refer now to slide 8. For the first quarter of 2026, we expect ACV plus royalties of $85 million to $89 million. revenue of $20.5 million to $21.5 million, with non-GAAP operating loss of $3.5 million to $2.5 million, and non-GAAP free cash flow of negative $1.5 million to positive $1.5 million. For the full year 2026, our guidance is as follows. ACV plus royalties to exit 2026 at $100 million to $104 million. Revenue of $89 million to $93 million, including approximately $7 million from the security business, noting that the majority of revenue derived from the security business we expect to be ratable. Non-GAAP operating loss of between $9 million to $5 million. approximately $1 million of which we expect to be related to the security acquisition, and non-GAAP free cash flow of positive $5 million to positive $9 million. Building on the strong deal execution in 2025, illustrated by the 32% year-over-year growth in RPO exiting the fourth quarter, and incorporating the anticipated growth in security's semiconductor cybersecurity assurance software business, We continue to believe that our terrace is on a path to profitability, as we expect to report a non-GAAP operating profit for a period as early as the fourth quarter of 2026. With that, I will turn the call back to the operator for the Q&A portion of our call.

Operator | Conference Call Operator:

Operator? Thank you.

Operator | Conference Call Operator:

Ladies and gentlemen, we will now begin the question and answer session. To join the question queue, you may press star then 1 on your touchtone phone. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star then 2. We will pause for a moment as callers join the queue.

Operator | Conference Call Operator:

We have a question from Kevin Garrigan from Jefferies. Your line is open. We have a question from Madison DePaola from Ross and Malt Securities. Your line is open.

Madison DePaola | Analyst, Ross and Malt Securities:

Can you help us size the cross-sell opportunities by outlining which customer segments you expect to engage first and kind of expand on how security changes your ability to increase content per customer over time?

Charlie Janik | Chief Executive Officer, Arteris Inc.:

Yeah. So, you know, hardware security assurance is becoming a major issue. As we said on the earnings call, there's about a 15x growth in hardware sort of hardware attacks, security attacks on semiconductors. So hardware security is becoming a major issue. And because of that, we are very excited about this Acuity hardware assurance software because not only can it be used by our substantially larger customer base, but it can be used by essentially any semiconductor company, and those chips have to be protected regardless of the complexity. So we think that it opens up a significant opportunity to essentially enhance the system IP value that we provide, but also to address basically any semiconductor out there. So we're very excited about what we have been able to accomplish, and we'll look forward to keeping you updated on our progress.

Operator | Conference Call Operator:

Okay, great. Thank you.

Operator | Conference Call Operator:

Again, if you would like to ask the question, please press star, then 1. Our next question is from Kevin Garrigan from Jefferies. Your line is open.

Kevin Garrigan | Analyst, Jefferies:

Yeah. Hey, guys. Sorry about that. Congrats on the great results and outlook, and thanks for taking my questions. Hey, your NXP announcement. So NXP is now using four of your solutions, which I think is probably up from one or maybe two. Are are you seeing more interest from customers to deploy an entire suite of solutions? And I'd imagine that if you do get customers that are deploying the entire suite, that puts your licensing ASPs well above the one million that you kind of were targeting a couple years ago?

Charlie Janik | Chief Executive Officer, Arteris Inc.:

Yeah, absolutely. And, you know, if you use everything from us, prior to the security acquisition, you're going to be well north of one million. And with security, it's going to be higher than that, right? So we basically have more to sell to our customers. And so security is a big issue now. A lot of markets, such as automotive and aerospace and even data center, are requiring ISO 21434 certification for cybersecurity protection. And so, you know, we think that this certainly helps drive the ESP significantly above the one million average project size. And also, the other thing that's helping to go above the one million is that the chiplet projects where you're dealing with multiple pieces of silicon where essentially every chiplet is a license. And every two plays a royalty also helps that trend, right? So we're very positive about the dynamics of our business.

Kevin Garrigan | Analyst, Jefferies:

Yep, got it. That makes a ton of sense. And then, Nick, just a question for you. Can you talk a little bit more about the strength and royalties that you saw? Was there a specific end market that saw surprising strength, or was it more just about your customer diversification strategy?

Nick Hawkins | Chief Financial Officer, Arteris Inc.:

It's a little bit of both. And hi, Kevin. Thanks for joining the call. You may have seen that the number of major reporters has grown from one five years ago to three about two years ago to nine today. So the big reporters are the six-figure plus per quarter royalty reporters. So that's a really important metric to us. And one of the issues that we look at there is looking at the spread. across geos and also across market verticals. And so of the nine large reporters today, they're spread across several segments. There are several in the automotive segment, and that remains our largest single vertical. But we do have now a very rapidly emerging consumer enterprise and even now aerospace segment. large reporters. So I'm very happy that it's a broad spectrum of strength and look forward to some further growth in the future.

Operator | Conference Call Operator:

Yep. Got it. Okay. Perfect. Thanks, guys, and congrats on the results. Thank you. Thanks, Kevin.

Operator | Conference Call Operator:

Once again, if you would like to ask a question, please press star, then 1. Our next question is from Gus Richard from Northland. Your line is open.

Gus Richard | Analyst, Northland Securities:

Yes, thanks for taking the question, and congratulations on the results. In Q4, the royalties had a significant quarter-on-quarter step-up. Is there any catch-up royalty in that number, or should we expect that to be the run rate going forward with a seasonal bias?

Nick Hawkins | Chief Financial Officer, Arteris Inc.:

Yeah, that's an excellent question, Gus, and welcome to the call. And this is Nick, by the way. There was a single royalty pickup, which was reasonably sized. It was less than half a million dollars, but that's a decent pickup, which we saw in the fourth quarter. So it did get a bit of a boost from that. So the 50% variable increase includes that. If you X that out, the growth rate year over year was still in the low 40s percent, which is above our trajectory and our... our sort of longer-term guidance for CAGR for the next five years. So we're very happy that it's already growing at that rate. Audits, you can never guarantee when they're going to produce a positive result for the company. When they happen, they're great, but we can't, as you rightly point out, you can't bank on them.

Gus Richard | Analyst, Northland Securities:

Got it. And then just a little bit about security and its impact on the P&L industry. You know, my top line went up, you know, at the midpoint of guidance, about $7 million. And then I'm just curious, you know, how much of that was security for the full year? And then can you talk a little bit about the impact on the P&L in terms of, you know, step up in OpEx going forward?

Nick Hawkins | Chief Financial Officer, Arteris Inc.:

Yeah, it's another excellent question, Gus. So yeah, so of the 91 million midpoint guide, it's 89 to 93 is the range for revenue in 26. Of that 91, seven approximately is security. So, and forgive me if you can hear my dog barking in the background. So 84 is the Arteris original business. And that represents about a 19% year over year growth. So as far as the rest of the financial impact from Psycuity, we do expect them to be a slight contributor to the loss for the year, so about a million dollars worth of loss. By the fourth quarter, we expect them to be roughly at break-even, which is in line with the pre-Psycuity edition Arteris business. And as far as free cash flow is concerned, we're also expecting them to be something like a million to the negative over the full year and about 1.5 million negative in the first quarter. This often happens in acquisitions, as I'm sure you've seen before. And there is a little nuance around gross margins. Some of the government work that they do is actually involves subcontractors. And the gap accounting for subcontractors is that those expenses are not OPEX, they're treated as cost of revenue. So there's something like a two percentage point, a one to two percentage point drop in gross margin intensity. But that's just literally a flip between OPEX and gross margin.

Gus Richard | Analyst, Northland Securities:

Okay, got it. That was helpful. And then my last one is, when you did the security acquisition, you guys announced an ATM, and you were going to use that to replace the cash that you used for the acquisition, and I'm just wondering, you know, where are you in that equity raising effort, and, you know, when can we expect that to conclude?

Nick Hawkins | Chief Financial Officer, Arteris Inc.:

So we're in the process of going through the activation Gus. We can't activate during a quiet period as you probably know because obviously we have MMPI during that period before we announce our results. So we will be going through the activation process shortly. We then are going through a process of setting up the traditional guardrails. We have a pricing committee on the board and they will agree guardrails in terms of pricing and quantum. And so you can expect maybe some small amounts to dribble through in the first quarter. It just really depends on how the market moves and and so on. We have no intent at the moment to utilize anything close to the full amount that's available there.

Gus Richard | Analyst, Northland Securities:

Got it.

Operator | Conference Call Operator:

Well, that was a buzz kill. Thanks for the help. There are no questions at this time.

Operator | Conference Call Operator:

I would now like to turn the conference back to Charlie for the closing remarks. Please go ahead.

Charlie Janik | Chief Executive Officer, Arteris Inc.:

Okay. Thank you for your interest in our tariffs. We look forward to meeting with you at the upcoming non-deal roadshow and investor conferences in the quarters ahead and updating you on our business progress. Thank you very much.

Operator | Conference Call Operator:

This concludes today's conference call. Thank you for participating. You may now disconnect.