NASDAQ:AIP Q1 2026 Earnings Call Transcript

Generated on 11/25/2026

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Thank you. Thank you. Thank you. Thank you.

Operator | Conference Operator:

Good afternoon, everyone, and welcome to the Arteries First Quarter 3026 Earnings Call. Please note that this call is being recorded and simultaneously webcast. All material contained in the webcast is the sole property and copyright of Arteries, with all rights reserved. For opening remarks and introductions, I will now turn the call over to Erica Mannion at Sapphire Investor Relations. Please go ahead.

Erica Mannion | Investor Relations, 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 first quarter ended March 31, 2026. Nick will review the financial results for the first quarter of 2026 followed by the company's outlook for the second quarter and the 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 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 and 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 appear in the press release our tariffs issued today, and in the documents and reports filed by our tariffs 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 gap measure can be found in the press release for the quarter ended March 31, 2026. In addition, for a definition of certain of the key performance indicators used in this presentation, such as annual contract value and remaining performance obligations, please see the press release for the quarter ended March 31, 2026. 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 March 31, 2026, may obtain a copy by visiting the investor relations section of the company's website. In addition, management will be referring to the first quarter 2026 earnings presentation, which can be found in the investor relations section of the company's website under events and presentations tab. Now, I will turn the call over to Charlie.

Charlie Janik | Chief Executive Officer, Arteris:

Thank you, Erica, and thanks to everyone for joining us on our call today. The first quarter of 2026 was a robust quarter for our tariffs, as we reached another record annual contract value plus royalties of $92.8 million, representing a 39% year-on-year increase. We also achieved record revenue, record royalties, and record revenue backlog. Customer engagement in the quarter included both existing customer renewals as well as adding new logos. We want licensed deals in enterprise computing, automotive communications, consumer electronics, and aerospace and defense sectors. AI integration into all types of electronics, from data centers to edge devices and physical AI systems, is increasing the demand for advanced connectivity and security products, and now two-thirds of our customer engagements are into AI chips. New chips and chiplets continue to get more complex, and perform more advanced computing. Efficient, safe and secure data movement within those devices is essential, which is driving the growing adoption of Arteris products and solutions. Every semiconductor must move data to be a chip or chiplet. Rapidly advancing data movement powered by chips is evident in recent earnings releases by semiconductor companies. Many of these companies are also Arteris customers and have both beaten their first quarter revenue projections and raised guidance for the year. This performance has clearly flowed through into our royalty stream, which has increased 67% year over year. Enterprise computing, which includes data centers, high performance computing, or HPC, including high bandwidth memory, or HPM, and other AI infrastructure companies, was again the biggest contributor to our licensing activity in the quarter. This includes a leading global hyperscaler, which expanded its use of Arteris network on chip technology for its next generation of data center chips. Advanced AI data centers are experiencing strong demands for HBM, and I'm pleased to say that another leading global memory supplier is now utilizing Arteris system IP to accelerate their memory chip development. Automotive also continues to be a strong sector for us where our technology is helping to meet the needs of physical AI systems. An example was an important first quarter deal announcement with Renesas that increased their licenses and deployed our system IP for their most advanced, our car, Gen 5 SOC series. Tailored for advanced driver assistance and automatic driving systems, this latest SOC delivers AI performance of up to 400 trillion operations per second, or TOPs, with multi-die chiplet extensions to boost AI performance using Arteris network on chip technology for silicon data movement. Communication with efficient, safe, and secure data movement is also playing an increasingly important role in transmitting data, particularly between data centers and edge and endpoint devices. In the first quarter, one of the leading European 5G and 6G communications equipment players further expanded their use of Arteris technology to accelerate the integration of advanced telecommunication chips. Satellites extend communications into aerospace and defense, where the pace of innovation and development of advanced, resilient, safe, and secure semiconductors is growing rapidly. In the first quarter, a leading US space infrastructure company expanded its use of Arteris for the development of next-generation space applications. Beyond Earth's orbit, it was a pleasure to see the success of the Artemis II mission, where AMD chips with built-in Arteris technology were used to support critical sensor fusion, data routing, and image processing for the Orion spacecraft. This is yet another example of Arteris' use in data-intensive space exploration. We continue to see adoption of our FlexGen Smart Knock IP at major accounts and startups. We are also working with early adopters on two products for optimized chiplet and multi-die system IP, which we anticipate deploying in production during the second half of 2026 with focus on AI, HPC, and ADAS designs. We broaden our system IP portfolio, which addresses key aspects of advanced chip design through the acquisition of Cycuity, a leading chip cybersecurity company. This technology is critical to the security of chips regardless of their complexity. We are starting the process of leveraging our deep relationships with over 200 semiconductor design companies and are already seeing strong interest from many of these customers across many verticals including data center, aerospace and defense, consumer, automotive and communications. By way of example, a top five U.S.-based hyperscaler, which is an existing Arteris customer, has licensed Arteris security technology in the first quarter to help mitigate cybersecurity risks. The ever-increasing focus on cybersecurity threats is highlighting the need for our solutions which identify and help mitigate cybersecurity vulnerabilities during chip development phase before silicon mass production. We recently announced a collaboration with MIPS to accelerate the development of physical AI chips. MIPS will use our Terrace FlexGen Smart Knock IP and Magilum SoC integration automation software to help accelerate the development of scalable SoC platforms

targeting high-growth markets in physical AI, including automotive microcontroller units, MCUs, and advanced driver assistance systems, ADAS, robotics, and embedded computing. Lastly, Arteris was named to Fast Company's list of the world's most innovative companies of 2026. Arteris ranks number four in the most innovative companies in the North America category, as this year's list shines a spotlight on businesses that are shaping industry through their innovations. Arteris joins the ranks of Google, NVIDIA, Anthropic, and more in Fast Company's 2026 list of world's most innovative companies. Arteris also won a Stevie Award for 2026 Technology Innovation of the Year in the software category for our Cycuity semiconductor cybersecurity products. On an organizational front, today we also announced that Mick Hawkins, our CFO, has chosen to retire effective August 31st, 2026. Nick will take us through our Q2 report and continue to serve as an advisor to Arteris after his retirement date to facilitate an orderly transition. Nick leaves the company in great shape with no debt, positive free cash flow, and major contributions to three acquisitions. Nick has been an invaluable partner during a transformative period for Arteris. We thank Nick for his dedication to the company and wish him all the best. With that, I'll turn it over to Nick to discuss our financial results in more detail.

Nick Hawkins | Chief Financial Officer, Arteris:

Thank you, Charlie. Good afternoon, everyone. It has been a rewarding and enjoyable experience to help lead Arteris through an important stage in its development. I am proud of the exceptional finance team we have built and what the company has accomplished. During my seven years at Arteris, in addition to leading the company through its IPO, I've also led our M&A processes, including the important recent acquisition of the cybersecurity company, Psycuity. Arteris has grown substantially in revenue and market capitalization, is now cash flow positive, and is transitioning to profitability this year. It has been privileged to serve under Charlie and our excellent board, alongside our industry-leading leadership team and all our people. Arteris is well positioned for the future, and I look forward to following the company's continued progress in the years ahead. As I review our first quarter results for 2026 today, please note I will be referring to GAAP as well as non-GAAP metrics. Please note also that a 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 1Q2026 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 first quarter. beating the top end of our revenue and acv plus royalties guidance and meeting the top end of our non-gap operating income guidance range turning to slide five of the presentation total revenue for the first quarter was 22.9 million dollars up 39 year-over-year and above the top end of our guidance range notably training 12-month royalties was 7.9 million dollars six to seven percent higher year over year setting a new record high our royalty stream today is fueled by a balanced mix of customers across all our vertical markets and our large royalty reporters which we define as over six figure dollars per quarter are in automotive consumer enterprise computing and aerospace and defense The number of customers reporting a quarter million plus royalty dollars has grown from one a year ago to three currently, further highlighting our rapidly diversifying and growing royalty revenue stream. At the end of the first quarter, ACB Plus royalties was $92.8 million, up 39% year over year, above the top end of our guidance range, and at a new record high. Romanian performance obligations, or RPO, which is our contracted future revenue, at the end of the first quarter totaled $118 million, 33% higher year-over-year, and another record high for our tariffs. We expect just over half of our RPO at the end of the first quarter will be recognized as revenue in the 12 months starting April 1, 2026. Non-GAAP gross profit in the quarter was $20.1 million, representing a gross margin of 87%. GAAP gross profit in the quarter was $19.7 million, representing gross margin of 86%. This now reflects for the first time the inclusion of subcontractor costs as cost of revenue for certain security government contracts. Now moving to slide six. Non-GAAP operating expense in the course is $22.6 million. In line with our operating leverage goals, we are maintaining our commitment to limit overall growth in OPEX to 50% of our revenue growth. We believe that our investments into product development and customer success will help to accelerate our top-line growth in the coming years. At the same time, we are delivering operating leverage, which is being driven across all cost categories. and we remain disciplined in our spending and investments, in particular in G&A spending, which is on average grown at less than one quarter the rate of revenue on a non-GAAP basis over the last three

years. This has resulted in a 31 percentage point improvement in non-GAAP operating margin over that period. Total GAAP operating expense for the first quarter was $29 million, which included acquisition-related expenses of $0.6 million in the first quarter. Non-GAAP operating loss in the quarter was $2.5 million at the top end of our guidance range. GAAP operating loss for the first quarter was $9.3 million compared to a loss of $7.7 million in the prior year period. Non-GAAP net loss in the quarter was $1.2 million or diluted net loss per share of 3 cents. GAAP net loss in the quarter was $8 million or diluted net loss per share of 17 cents. Moving to slide seven and turning to the balance sheet and cash flow. We ended the quarter with $41.9 million in cash, cash equivalents and investments and we have no financial debt. Free cash flow, which includes capital expenditure, was negative $7.4 million in the first quarter, including approximately $3 million deal consideration elements and fees related to the security acquisition that closed in the quarter. I would now like to turn to our outlook for the second quarter and the full year 2026 and refer now to slide eight. First, starting with the next quarter, we will no longer be guiding quarterly free cash flow. As our average deal size continues to grow, we believe that the consequent fluctuations in quarter-to-quarter operating cash flows make the guidance of this KPI less helpful to investors. Additionally, on an annual basis, we are already free cash flow positive, having delivered that in 2025 and guiding increased positive free cash flow for 2026. This was our first strategic financial objective. We are now focused on delivering our next strategic financial objective, the inflection to non-GAAP profitability towards the end of the current year. For the second quarter of 2026, we expect ACV plus royalties of $95 million to $99 million, revenue of $23 million to $24 million, non-GAAP operating loss of $3 million to $2 million, free cash flow of positive $2 million to positive $8 million. As we look forward to the full year of 2026, we are seeing continued strength in semiconductors and signs of an upward trend cycle in the market. Consequently, we are raising our guidance for the full year on top and bottom line metrics. For the full year of 2026, our guidance is as follows. ACV plus royalties to exit 2026 at $102 million to $106 million, an increase of $2 million from prior guidance. Revenue of $91 million to $95 million, $2 million higher than prior guidance and representing a 32% year-over-year increase at the midpoint. non-GAAP operating loss of between $8.5 million to $4.5 million, an improvement of $0.5 million from prior guidance, and non-GAAP free cash flow of positive $5 million to positive $9 million. We're seeing a strong start to the second quarter, with momentum and increasing customer engagement leading us to believe that we will see continued strength in the second half of the year. Building on our strong revenue growth, coupled with carefully focused expense discipline that is delivering operating leverage, we continue to believe that our terrace is on a path to profitability, and we expect to report a non-gap operating profit for a period as early as the fourth quarter of the current year. With that, I will turn the call back to the operator for the Q&A portion of the call.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press star followed by the number one on your touchtone phone, and you will hear a prompt that your hand has been raised. If you wish to decline from the polling process, please press the star followed by the number two. We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Kevin Cassidy of Rosenblatt. Please go ahead.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Yes, thanks for taking my question. And congratulations on the great results. And Nick, congratulations on a successful career and all the best as you go through the next stage. My question, yes. Yeah, on the hyperscaler design win and also the high bandwidth memory, What's the timeline of those products coming to market or generating royalties? And I guess I'm trying to get a feel, is there an acceleration in any of these hyperscaler ASICs or any of these developments?

Kevin Cassidy | Analyst, Rosenblatt Securities:

Hey, I'm Kevin.

Nick Hawkins | Chief Financial Officer, Arteris:

This is Nick. Let me handle the royalties part of that question. Generally speaking, the design cycles in that space are a little bit quicker than you'd expect in, say, automotive, which is quite a long design cycle, as you know, can be up to six years in some cases. In this sphere, it's more like two to three years that we'd expect to see something floating through from that.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, and same with the high bandwidth memory?

Kevin Cassidy | Analyst, Rosenblatt Securities:

Similar, yeah.

Charlie Janik | Chief Executive Officer, Arteris:

Yeah, I mean, those are all going into data center AI. And those are basically some of the quickest design cycles that we see. But also, the volumes are actually more significant than they used to be in the past. But these products have a much faster churn than, like Nick said, the automotive, for example. And so they rise quicker and they also die quicker.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, that was going to be my next question, the life cycle of the products as they come to the market. Also, I would imagine as they go down the process to smaller process nodes, the price of the products go up. So your overall royalties could be increasing compared to the past generation.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Yeah, that's true, Kevin.

Charlie Janik | Chief Executive Officer, Arteris:

Sorry, Joe. These tend to be high-priced chips.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Right. Right. And getting more expensive those. Yes. Okay. Great. Thank you.

Operator | Conference Operator:

Once again, if you wish to ask a question, please press star 1 to join the queue. And your next question comes from the line of Josh Buchalter of TD Cowen. Please go ahead.

Josh Buchalter | Analyst, TD Cowen:

Hey, guys. Thank you for taking my question, and congrats on the results, and more importantly, best wishes, and a big thank you to Nick on your next endeavor. I guess to start, maybe big picture, as we think about the raise of the annual guidance, how much of this would you categorize as coming from the better royalty environment that you spoke to, just from better chip sell-through, versus increased confidence in licensing deals that you expect to sign over the next several quarters. Thank you.

Nick Hawkins | Chief Financial Officer, Arteris:

So let me take that one, Charlie. So, Josh, thanks for your kind words. It's been a pleasure, I've got to say. On the increased guidance, I mean, I'll say just one general thing, which is, you know, philosophically we tend to be – careful on our guidance. We're very mindful of guiding our friends on the street diligently. And so we don't like to get over our skis on guidance. But we are seeing a very strong trajectory in royalties. The 12-month trailing was up 67%, but actually year-over-year first quarter, interestingly, was up over 100%. So we are seeing a nice pick-up there, and we're seeing more people reporting bigger and bigger numbers. So that's part of it. There is a I would categorize the first quarter as robust and good from a deal flow perspective in dollars. The start to the second quarter was very strong. We actually had the strongest April on record in terms of deal flow by a significant margin, so something like four times bigger than the next biggest April we've ever seen. So we're seeing a lot of activity. We're seeing a really strong pipeline on deals. I think that we want to wait until we're a little further through the quarter to see if this robustness continues and persists before we look at future guidance.

Josh Buchalter | Analyst, TD Cowen:

Okay, thank you for all the color there. And then maybe following up on some of Kevin's questions earlier, you've been highlighting some pretty sizable hyperscale data center wins, I think, with FlexGen but other IPs. over the last few quarters, how should we think about the scale of data center overall compared to your historic auto exposure? Given it moves faster, as you mentioned in response to Kevin, what's a reasonable timeframe at which that could be a more meaningful portion of overall revenue in the model? Thank you.

Charlie Janik | Chief Executive Officer, Arteris:

Yeah, I mean, the data center segment, from a license perspective, is growing very nicely, right? So on the royalty side, because data center, though the chips are higher priced, the volumes are lower. You know, we expect automotive to be, you know, continue to be a pretty solid royalty generator. But on the license side, we're definitely seeing solid growth from our data center customers.

Nick Hawkins | Chief Financial Officer, Arteris:

If I can add to that also from a quantitative perspective, Josh, Enterprise is now, which is where our data center business resides in our verticals, is now the largest of our verticals in terms of license generation. It's slightly now higher than automotive, which used to be the number one. They're both in the sort of 30% to 35% range. What's interesting is aerospace and defense now partially as a result of the addition of security is

now close to 10%. of our ACV, so it's an interesting developing field.

spk07:

Thank you for the call, both.

Operator | Conference Operator:

Once again, if you wish to ask a question, please press star 1 to join the queue. And we have a follow-up question from Kevin Cassidy of Rosenblatt. Please go ahead.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Yeah, thanks for taking my follow-up question. Just on the security acquisition, and now that you've had them for a quarter or so, can you say, is it coming in better than expected? Or is the outlook, I guess, what's the pipeline look like from here?

Charlie Janik | Chief Executive Officer, Arteris:

So we've really started in middle of January, so it's early days. There were some pretty good government orders in flight, which we closed. So that's very promising. And for the second quarter, we're starting to see some very, very promising deals from the commercial side. So we think that this acquisition is going to turn out just fine. And cybersecurity, because of the Mythos product and other sort of AI-based technologies, the cybersecurity is coming to forefront. And we think that all of our customers, of which there's more than 200, can use the Cycuity product. So we're very excited about the potential. And it looks promising, but it's relatively early days.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, thank you.

Operator | Conference Operator:

There are no further questions at this time. I will now turn the call over back to Charlie Chanik for closing remarks.

Charlie Janik | Chief Executive Officer, Arteris:

Well, thank you for joining our call today and for your interest in Arteris. We look forward to meeting with you and updating you on our business progress in the course ahead and seeing some of you at some investment conferences. So thank you for your support.

Operator | Conference Operator:

Ladies and gentlemen, this concludes today's conference call. Thank you everyone for joining. You may now disconnect.