NASDAQ:AIP Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Good afternoon, everyone, and welcome to the Arteris Third Quarter 2026 earnings call. Please note this call is being recorded and simultaneously webcast. All material contained in the webcast is the sole property and copyright of Arteris, 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 | Sapphire Investor Relations:

Thank you and good afternoon. With me today from our terrace are Charlie Janac, Chief Executive Officer, and Saurabh Sinha, Chief Financial Officer. Charlie will begin with a brief review of the business results for the third quarter ended September 30, 2026. Saurabh will review the financial results for the third quarter of 2026, followed by the company's outlook for the fourth quarter and the full year of 2026. We will then open the call for questions. Before we begin, I'd like to remind listeners 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 results to differ appear in the press release Oteris issued today and in the documents and reports filed by Oteris from time to time with the Securities and Exchange Commission. Please note during this call management 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. The non-GAAP measures are presented as we believe Thank you for joining us today. 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 September 30, 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 September 30, 2026 may obtain a copy by visiting the investor relations section of the company's website. In addition, management will be referring to the third quarter 2026 earnings presentation, which can be found in the investor relations section of the company's website under the events and presentations tab. Before I turn the call over to Charlie, I would like to mention that management will participate in the Roth Technology Conference on November 18 in New York and the Northland Growth Conference on December 16, which takes place virtually. Now, I will turn the call over to CEO, Charlie Janic.

K. Charles Janac | Chief Executive Officer:

Thank you, Erica, and thanks to everyone for joining us on our call today. In the third quarter, We achieved another record annual contract value plus royalties of $104 million, representing a 39% year-on-year increase, and record revenue of $25.8 million, representing a 48% increase. Once again, we also achieved record royalties and RPO backlog. License activity in the quarter remained strong supported by the continuing integration of data center edge and physical AI computing. We are seeing this across all market verticals led by enterprise computing, followed by automotive, industrial, consumer electronics, communications, and aerospace and defense applications. A third of those wins in dollar terms were with top

30 global technology customers. Demonstrating strong market momentum, a growing number of customers are deploying multiple products from our four system IP product lines. This multi-product adoption reflects the critical role our solutions play in managing rising semiconductor design complexity. During the quarter, our tariffs surpassed 1,000 customer-confirmed design starts. Arteris is increasingly becoming a key partner in the rapidly evolving semiconductor market spanning the world's largest established technology companies through the most innovative startups. By enabling the underlying high-performance, efficient, safe, and secure data movement in silicon devices, Arteris has been able to support innovation from the smartphone inflection to today's deployments in sophisticated and complex AI infrastructure silicon, intelligent edge devices, and physical AI. Surpassing 1,000 customer-confirmed design starts demonstrates continued customer confidence in our products and our customer success organization. AI infrastructure semiconductor design activity remains strong in Q3 with a growing demand for our Terris product that helped enable the underlying data movement in chips and chiplets. In the third quarter, our largest deal was with a top hyperscaler who expanded their existing use of our teris technology to accelerate the creation and integration of chips and chiplets. In addition, two of the industry's top 10 semiconductor companies expanded their usage of our products to support their existing AI accelerators and data center compute needs as well as the growing demands for architecture across XPUs for agentic workloads and other applications. Physical AI is another area where we continue to see growing demand for our teris products. Building upon our proven technology in automotive and autonomous systems, customers are able to scale our solutions to drones, human robotics, and adjacent applications. In the third quarter, one of our largest deals came from a leading automotive OEM, which expanded the use of our terrorist technology for successive generations of their in-house advanced chip design, where performance, energy efficiency, safety, and security are crucial. Another highlight of the third quarter was our announcement of the expansion of our chiplet and multi-die solution. A silicon design sophistication continues to grow across applications. The required physical semiconductor area becomes quite large, creating design, manufacturing, and yield challenges. As a result, the development of chiplets and their integration into multi-die SOCs is accelerated. This in turn introduces the challenge of addressing die-to-die communication and data movement that previously occurred seamlessly within one chip, now having to cross physical boundaries while maintaining Performance, Efficiency, and Predictable Traffic Behavior. The expansion of our chiplet and multi-die solution addresses this challenge by extending data movement across die-to-die links, allowing multiple dies to operate as a unified architecture. The new FlexGen multi-die and Encore multi-die products expand the Arteris solution to support chiplet architectures. These increasingly include solutions for agentic AI workflows, HPC, data center, cloud infrastructure, physical AI, and others. Together with Arteris, Magellan, IP integration automation, and security hardware security assurance, our expanded portfolio provides semiconductor engineering teams with technologies spanning data movement, system integration, and cybersecurity for increasingly complex multi-die designs. These new products are a direct result of close collaboration with customers such as AMD and Socionex and ecosystem partners including Cadence, Silatronics, Synopsys, Univista, and others. Chiplets, multi-die systems, AI infrastructure, and physical AI also increasingly require semiconductor cybersecurity assurance. The growing security threats posed by fast-evolving frontier AI models identification and exploitation of vulnerabilities are driving new and growing cybersecurity standards compliance requirements. This results in growing interest and demand for our security semiconductor cybersecurity assurance products. During the third quarter, we announced the expansion of the Third Party IP Program as part of the Trusted and Assured Microelectronics Program. This program, driven in close collaboration by BAE Systems and Sci-5, aims to address the growing challenge of ensuring the security and trustworthiness of commercially sourced third-party silicon IP and cybersecurity assurance methodologies for semiconductors used in mission-critical systems Our customers continue to innovate in exciting high-growth areas which require a combination of high performance, efficiency, safety, and security backed by global customer support. Arteris continues to be in an excellent position to support demand for advanced semiconductor technologies in the AI era spanning infrastructure silicon, edge devices, and physical AI systems. Our focus remains on enabling customers to accelerate their innovation while reducing development risks to bring their next generation products to market with Arteris technology at its core. Lastly, I will hand the call over to our new CFO. Saurabh Sinha brings more than 25 years of financial leadership experience at public and high-growth technology companies, and we're excited to have him on board. With that, I will turn it over to

Saurabh to discuss our financial results in detail. Thank you, Charlie.

Saurabh Sinha | Chief Financial Officer:

Good afternoon, everyone. Since joining Arcturus in September, I have spent the past few weeks integrating with the team and diving deep into our operations. It is a privilege to step into the company at such a pivotal moment in its growth. I look forward to collaborating closely with the team to capture the significant opportunities ahead and drive long-term value for both customers and shareholders. As I review our Q3 2026 results, I will refer to both gap and non-gap financial measures. The earnings release posted on our website includes a reconciliation of the non-gap measures to their most directly comparable gap measures. I will also refer to the Q3 earnings presentation which is available in the investor relations section of our website under events and presentation. We delivered another quarter of solid financial results and in Q3 we exceeded or met our guidance on revenue and other key KPIs. Turning to slide 5, Q3 revenue was 25.8 million up and Evin Arici Kebebew. 71% year-over-year and also a record high. Remaining performance obligations, or RTO, which represents contracted future revenue, totaled $135 million at quarter-end, another record for Arteris. We expect slightly more than half of this amount to be recognized as revenue during the 12 months beginning October 1, 2026. Non-GAAP gross profit was 22.8 million for a non-GAAP gross margin of 89%. GAAP gross profit was 22.3 million for a GAAP gross margin of 87%. As a reminder, 2026 gross margin includes subcontractor costs in cost of revenue for certain psychotic government contracts. Now to slide 6. Non-GAAP operating expenses in the quarter were 24 million. As mentioned in previous calls, expense growth has been impacted this year by French payroll taxes associated with RSU resting. Our long-term operating model objective is to grow operating expenses at approximately half the rate of revenue growth, and our Q3 revenue and operating expense results are consistent with that model. As always, our continued investment in product development and customer success will support revenue growth over the coming years. Total GAAP operating expenses for Q3 were 33.6 million. Non-GAAP operating loss was 1.2 million, which is an improvement of $2.3 million from the same quarter a year ago. GAAP operating loss was 11.3 million. Non-GAAP net loss was 1.1 million, or 2 cents per diluted share. Gap net loss was $11.2 million or $0.23 per diluted share. Moving now to slide 7. Free cash flow in the quarter was negative $2.1 million, primarily reflecting the timing of customer payments. We ended the quarter with $120 million in cash, cash equivalents and investments, and no financial debt, which includes the completion of our ATM program. Now turning to our outlook for Q4 and full year 2026, please refer to slide eight. For Q4 2026, we expect ACV plus royalties of 103 million to 107 million. Revenue of 25.7 million to 26.7 million. Non-GAAP operating income of negative 0.9 million to positive 1.1 million. As we look to finishing a strong 2026 for Arteris, we see continued strength in semiconductors. Consequently, we are raising our full year guidance on revenue, ACV plus royalties, and non-GAAP operating income. For the full year 2026, our guidance is as follows. ACV plus royalties to exit 2026 at 103 million to 107 million, an increase of 1 million from prior guidance. Revenue of 98.5 million to 99.5 million, an increase of 2.5 million from prior guidance. Non-GAAP operating loss of between 9.2 million to 7.2 million, an improvement of 0.3 million from prior guidance. Non-GAAP free cash flow of positive $5 million to positive $9 million unchanged from prior guidance. We are encouraged by the continued license activity and ongoing customer engagement. We remain focused on execution and on managing expenses carefully as we work toward improving operating leverage. With that, I'll turn the call back to the operator for the Q&A.

Conference Operator | Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star followed by the 1 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 2. If you are using a speakerphone, please lift the handset before pressing any keys. Please limit your questions to one question and one follow-up question to allow enough time for others in the queue. Individuals can re-enter the queue if needed. One moment please for your first question. Your first question

comes from Kevin Garrigan with Jefferies. Please go ahead.

Kevin Garrigan | Analyst, Jefferies:

Yeah, hey Charlie and Saurabh, congrats on the results and Saurabh, welcome to the Arteris party. Hey, can you quantify the economics of the multi-product adoption? How much larger is the average contract when a customer takes the NOC system integration and security product together versus just taking a single product agreement?

K. Charles Janac | Chief Executive Officer:

Yeah, so as we said sort of when we went public back in 2021, that by 2026, which is this year, we'll be at about a million dollars ASP on the network on chip. If you throw in the Magellan and the Sycuity products, you're probably looking at something for an additional $400,000 maybe, $450,000, something like this. If you take everything from us, you would probably be somewhere around 1.4, 1.5 million.

Kevin Garrigan | Analyst, Jefferies:

Got it, got it. Okay, that makes sense. And then your licensing agreements with the U.S. hyperscaler and the two leading-edge semiconductor companies, you know, can you just describe the applications, whether these are for, you know, training, inference, networking, or custom silicon, and is it different than I guess, are the applications different than what they were previously using our tariffs for?

K. Charles Janac | Chief Executive Officer:

No. They're the same. So, basically, they are, you know, custom silicon for AI inference.

Martin Yang | Analyst, Oppenheimer:

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

Conference Operator | Operator:

Thank you. Your next question comes from Kevin Cassidy. with Rosenblatt. Please go ahead.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Yes, thanks for taking my question, and I also welcome Saurabh. And congratulations on the milestone of 1,000 customers. When you're moving into the physical AI or expanding on the physical AI, it seems like that's a great opportunity. How much different are these designs than, say, what was in automotive or in data center?

K. Charles Janac | Chief Executive Officer:

So, The physical AI actually has significant similarities to automotive. You need functional safety, you need security, you need power efficiency, and you need performance. So the experience that we have in automotive translates directly to physical AI. And in fact, I would argue that A car eventually will become

basically a robot on wheels and so basically the automated driving vehicles are basically applications of physical AI to transportation. There are some differences. There is a greater emphasis on sort of microcontroller functions and be able to handle motion control of the various motion axes and those kinds of things and also and some additional sensor processing capability, but there's actually quite a bit of similarity.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, great. Sounds you've got good experience already. The, you know, also we're seeing the trend of the smaller physical AI companies getting acquired by large analog companies or either other large microcontroller companies. What happens with your license agreements if there's a merger of two of your customers?

K. Charles Janac | Chief Executive Officer:

So all of our contracts have assignment provisions, and so it's a subject of discussion where we do not unreasonably withhold the assignment of the contracts, but the assignment of the contracts using our technology is not automatic.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, great. All right, thank you. Congratulations on good progress towards profitability, too. Oh, thanks.

Conference Operator | Operator:

Thank you. Your next question comes from Joshua Buchalter with TD Cowen. Please go ahead.

Joshua Buchalter | Analyst, TD Cowen:

Hey, guys. Thank you for taking my questions and echoing the welcome to Saurabh. You know, maybe Kevin teed me up for one. You know, now that your guidance is implying sort of operating profitability in the fourth quarter, How should we think about leverage from here? I mean, you guys have a lot of irons on the fire, but it's held OpEx pretty flat the last few quarters. What's sort of the right trajectory as we think about comparing OpEx growth to revenue growth from here? Thank you.

Saurabh Sinha | Chief Financial Officer:

Yeah, I'll take that. So, Josh, as I mentioned in my prior remarks, our model is operating expenses to grow at half the rate of our revenue growth. and which we have demonstrated in this quarter as well. So that is the trajectory we are on and the operating expenses, we have very good visibility on it and we expect to, and that is why we raise our guidance for Q4.

Joshua Buchalter | Analyst, TD Cowen:

Thank you for the color there. And then to follow up, I mean, you highlighted a few times, you know, seeing more traction in multi-die chiplet offerings Any way you can help us with context of how much of the revenue base today is coming from FlexGen and N-Core solutions for multi-die? Thank you.

K. Charles Janac | Chief Executive Officer:

So we don't break this out individually, but right now, chipware designs are about 10% of all designs. We think that ultimately that grows to about maybe 30-35% of all designs. So it will be a significant contributor to our revenue growth. The thing that should be noted, though, is that the chiplet designs are basically each chiplet is a project and each chiplet is a royalty stream. And so the chiplet projects have basically significantly higher ASP than... Thank you for the caller there, Charlie. Really interesting. All right, congrats on the results again.

Conference Operator | Operator:

Thank you. Your next question comes from Martin Yang with Oppenheimer. Please go ahead.

Martin Yang | Analyst, Oppenheimer:

Hi. Thank you for taking my question. Again, welcome, Saurabh. First question on the ACV plus royalties. This quarter, the incremental growth sequentially is moderating relative to the prior quarters. Is there anything worth pointing out there, any movement that you could give us more details? Thank you.

Saurabh Sinha | Chief Financial Officer:

Yeah, Mark. So, I mean, we look at on a year-over-year basis, and we have shown steady growth in ACV and royalties. If you look at the revenue growth, that has been also excellent. and we have guided up for Q4 as well. We did beat Q3, top end of the range. So it is all about looking at a snapshot at a point in time and there is some lumpiness which happens due to timing of the deals. But we feel pretty confident about and that is why Q4 is being guided up.

Martin Yang | Analyst, Oppenheimer:

Thank you, Saurabh. There's a question on security. I was curious if you have an updated view on your go-to market approaching customers outside of government contracts, which are longer-term vision for security comparing to what it is today.

K. Charles Janac | Chief Executive Officer:

Yeah, I mean, cybersecurity is becoming much more important and much more top-of-mind issues for customers both on the government side and the

Martin Yang | Analyst, Oppenheimer:

commercial side.

K. Charles Janac | Chief Executive Officer:

Last quarter, we announced a deal with ARM for use of Psycuity on their A-class course. This time, we announced a deal with BAE and Psy-5 for a trusted initiative. This is more of a government guide, but obviously, over time, our goal is to take Thank you, Charlie. That's it for me. Thank you. Ladies and gentlemen, as a reminder, if you have a question, please press star 1.

Conference Operator | Operator:

Your next question comes from Suji De Silva with Ross Capital Partners. Please go ahead.

Suji De Silva | Analyst, ROTH Capital Partners:

Hi, Charlie, and Saurabh, best of luck in the new role here. Staying on the chiplet topic, Charlie, maybe you could talk about, you said it's their each one project for these multi-chip versus this monolithic dye. Maybe you can give us some sense of kind of the ratio of how many projects you're seeing as we break out the chiplets versus the traditional monolithic dye programs. If it's kind of an X multiplier or if there's some bundling in there.

K. Charles Janac | Chief Executive Officer:

Well, I mean, it's a subject of negotiation, right? You know, if you have five or six chiplets in a package, you know, there's a discussion with a customer about what is the discount on each project, right? So, you know, it's not basically one X multiplier for each chiplet, but We and other companies in the industry are establishing a model that each chiplet in the package has its own project price and its royalty. And right now, those projects are pretty prevalent or more prevalent in the data center because they're basically used for the AI training and inference workloads. and, you know, those are big complex projects with much higher ASPs. And I think, you know, right now, as far as what we're seeing is about 10% of the license of the design starts are chiplets. But we think that over the next two to three years, it's going to go to perhaps 35% or maybe even more. And obviously, the The data movement architecture of those kinds of chips, you only have to handle the on-die data movement, but you also have to handle the multi-die data movement. And so things get much more valuable and much more complex, and it's an opportunity for us to add value. So we're very excited about the chiplet-type projects.

Suji De Silva | Analyst, ROTH Capital Partners:

Yeah, that's great color, Charlie. Thanks. And then just one question I just want to throw out there. I mean, you maybe see some early Suji, we are well diversified from a customer base and application standpoint.

Saurabh Sinha | Chief Financial Officer:

So no one customer has accounted for more than 10% of our revenue in the last few quarters, and we are also diversified by geography as well along with the application. So automotive, yes, and ADAS is important for us, but there are other applications as well which are shaping up equally well.

Suji De Silva | Analyst, ROTH Capital Partners:

Okay. Thanks, guys.

Conference Operator | Operator:

Thank you. Ladies and gentlemen, that concludes today's Q&A session. I will turn the call back over to Charlie Janac.

K. Charles Janac | Chief Executive Officer:

Thank you for joining our call today and for your interest in our terrace. Thank you for all the questions. And we look forward to updating you on our business progress in the quarters ahead and in the coming up investor conferences. So thank you for your support.

Conference Operator | Operator:

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