NASDAQ:CEVA Q2 2026 Earnings Call Transcript

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Rocco | Conference Operator:

Good day and welcome to the CEVA, Inc. second quarter 2026 earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad, and to withdraw your question, please press star then two. Please note today's event is being recorded. I'd now like to turn the conference over to Richard Kingston, Vice President, Market Intelligence, Investor, and Public Relations. Please go ahead, sir.

Richard Kingston | Vice President, Market Intelligence, Investor and Public Relations:

Thank you, Rocco. Good morning, everyone, and welcome to SEVA's second quarter 2026 earnings conference call. Joining me today are Amir Panush, Chief Executive Officer, and Yaniv Arieli, Chief Financial Officer. Before handing the call over to Amir, I'd like to remind everyone that today's discussion contains forward-looking statements that involve risks and uncertainties. as well as assumptions that if they materialize or prove incorrect could cause our results to differ materially from those expressed or implied by such statements. We will also discuss certain non-GAAP financial measures which we believe provide investors with additional insight into our core operating performance. Reconciliations between our GAAP and non-GAAP results are included in the earnings release issued this morning and available on the investors relations section of our website. With that, I'll turn the call over to Amir.

Amir Panush | Chief Executive Officer:

Thank you, Richard, and good morning, everyone. We delivered another strong quarter with revenue increasing 13% year-over-year to $29 million, fueled by licensing and related revenue growing 21% to its highest level in three years. The quarter also benefited from a sequential recovery in royalty revenue driven by continuing momentum across wireless connectivity, ramping automotive AI programs, and market share gains in smartphones. During the quarter, we signed 10 licensing agreements, including two with first-time customers and two directly with OEMs. More important than the number of agreements is the quality of those agreements. Increasingly, customers are adopting broader platforms and deeper collaborations that strengthen both our near-term licensing business and our long-term royalty opportunity. I would like to focus today on two themes that we believe highlight an important shift in the semiconductor industry and explain why SIVA and our technologies are increasingly well positioned for long-term growth. The first is the continuing migration of intelligence from the cloud to the smart edge. This is a trend we have discussed for several years. and one that is increasingly driving demands for our higher performance, connectivity, sensing and AI technologies. During the quarter, we announced that we believe is one of the most strategically significant AI licensing agreements in CIVAL's history. A leading global AI and computing platform company selected our new 4M NPUIP for its next generation custom AI silicon. This agreement is significant for several reasons. First, it represents a new category of AI customers for SIVA. Historically, our AI licensing activity has primarily been with semiconductor companies and device OEMs. This customer develops both the hardware platform and the operating system, allowing us to collaborate at a much deeper level by optimizing not only the MPU hardware, but also the AI software stack for its models, applications, and workloads. The expertise we gain through this engagement extends well beyond a single customer program. Co-optimizing AI hardware and software at the platform level will strengthen both our hardware and software roadmaps and further enhance our AI offering for future customers. More broadly, we believe these agreements reflect an important industry trend where companies with some of the world's large engineering organizations are increasingly choosing to leverage proven AI IP rather than developing every component internally. For these companies, the question is no longer whether they have the engineering capability to build an NPU, but whether doing so represents the best use of their engineering resources. By licensing production-proven IP, they can focus their investments on the hardware, software, and AI experiences to differentiate their platforms while reducing development risk and accelerating time-to-market. The second trend we are seeing is customers increasingly adopting border platform solutions rather than individual IP blocks. Two agreements from the quarter illustrate this well. A high-volume U.S. semiconductor company chose to adopt a complete chip built on our Wi-Fi 6 and Bluetooth Low Energy IP, originally developed in partnership with another SIVA customer, rather than licensing the underlying IP blocks individually. The decision reflected the same preference for production-proven, complete solutions over developing internally or licensing component IP. Another US customer expanded a relationship that began with a single basements component by adopting our complete basements processing subsystem. As semiconductor development becomes increasingly complex, customers are recognizing that leveraging proven subsystem IP can significantly reduce engineering effort and execution risk, all while accelerating time to market, enabling them to concentrate their internal resources on the technologies that most differentiate their products. These are different customers and different technologies, but they demonstrate the same underlying trend. Companies are increasingly choosing production-proven hardware, software, and system expertise delivered as a complete platform, rather than assembling individual IP blocks themselves. For SIVA, this expands both the scope and value of our engagement. Border platform adoption increases our content per design, deepens our integration into customer products, and creates larger, longer-term customer relationships and increases the royalty opportunity associated with each customer platform as those products enter production. These successful outcomes also validate the strategy we have been executing over the past several years. We have invested in expanding our diverse portfolio beyond individual IP blocks to more complex hardware and software platforms across connectivity, sensing, and AI. As customers look to accelerate development while reducing execution risk, we believe this positions SIVA to capture a greater share of silicon content in future design. Beyond these strategic engagements, Activity remained broad-based across our business. In addition to the AI and platform wins I just discussed, we signed multiple follow-on agreements with existing customers alongside our new customer engagement, demonstrating our ability to both expand long-term relationships and consistently win new business. Across connectivity, we secured customer engagement spanning the United States, Europe, China, and the border Asia-Pacific region, reinforcing the global demand for our technology. We also expanded our sensing portfolio with the launch of our Microsoft-certified RealSpace Elevate embedded application software, extending our special audio technology into the PC gaming market for the first time. Taking together, these achievements reinforce the strength of our connect, sense, and infer offering to enable physical AI use cases. While AI is creating exciting new opportunities for SIVA, connectivity remains the foundation of physical AI and continues to be the entry point for many of our customers' relationships. Increasingly, those relationships expand over time Customers adopt additional technologies across our portfolio.

Suji De Silva | Senior Equity Research Analyst, Roth Capital Partners:

Now, turning to royalties.

Amir Panush | Chief Executive Officer:

We are beginning to see the benefits of the broader customer engagement we have been building over the past several years translate into an increasingly diversified royalty business. Royalty revenues increase both sequentially and year-over-year, supported by continuous trends across our wireless connectivity portfolios. The growing contribution from automotive AI deployment and share gains in smartphones. Wireless connectivity remains particularly strong with healthy year-over-year growth in both Wi-Fi and Bluetooth shipments, while cellular IoT shipments reach another quarterly record. In automotive, customer programs continue to ramp, reflecting increasing AI content in next-generation vehicles. Overall, the quarter demonstrates the continued evolution of SIVA business and the continued market leadership of our IP. We are expanding the breadth of our licensing engagement, increasing the value of every customer relationship through border platform adoption, and building a more diversified royalty engine. Together, these trends reinforce our confidence in both our near-term outlook and our long-term growth opportunity. With that, I'll turn the call over to Yaniv to review our financial results.

Yaniv Arieli | Chief Financial Officer:

Thank you, Amir. Good morning, everyone. I'll now review our financial results for the second quarter. Revenue for the second quarter increased 13% year-over-year and 7% sequentially to $29 million, reflecting another exceptionally Our trailing 12-month licensing and related revenues increased 13% to around $70 million. The revenue breakdown is as follows. Licensing and related revenue increased 21% year-over-year to $18.2 million, reflecting 63% of our total revenues and our strongest licensing quarters in three years. Importantly, the strength of the quarter reflects the broader platform engagements Amir described earlier, which not only increase licensing and related revenues today, but also expand the future royalty opportunity associated with those customer programs. Realty revenue was $10.8 million, reflecting 37% of our total revenues, compared with $10.7 million for the prior year, period, and up 17% sequentially, reflecting continued strength across wireless connectivity and automotive AI and share gains in smartphones. Gross margin was 87% on GAAP bases and 88% on non-GAAP bases in line with our guidance. GAAP operating expenses were $27.5 million below the low end of our guidance range. Non-GAAP operating expenses, excluding equity-based compensation expenses, amortization of acquired intangibles, and the acquisition-related costs were $22.3 million at the low end of our guidance. GAAP operating loss improves to $2.1 million compared to $4.5 million in the second quarter of last year. Non-GAAP operating income increased to $3.1 million compared with $0.8 million in the prior year, while non-GAAP operating margins expanded to 11% up from 3% a year ago. Both measures also improved significantly on a sequential basis, demonstrating continued operating leverage. Net financial income was $1 million compared to $2.1 million in the second quarter of 2025 and below our guidance of $1.7 million. primarily due to foreign exchange effects related to our Israeli shekel-dominated lease obligations. Income tax expense was approximately $1.8 million, slightly above the guidance, reflecting the geographic mix of licensing and royalty revenues recognized during the quarter. Gap-not loss was $2.9 million, or 10 cents diluted Share, compared with GAAP net loss of 3.7 million, or 15 cents, per share in the second quarter of 2025. Non-GAAP net income increased 28% year-over-year to 2.3 million, while non-GAAP diluted earnings per share increased to 8 cents compared to 7 cents in the prior year period. On a sequential basis, both non-GAAP and Net income and diluted earnings per share doubled. With respect to other related data, during the quarter, customers shipped 567 million SIVA-powered devices, an increase of 16% compared to the second quarter of 2025. Of those shipments, 61 million units, or 11% of the total, were mobile handset modem Shippments, compared with 55 million units in the prior year period, reflecting improving smartphone royalties driven by stronger market share in entry-level smartphones, together with continued expansion in the premier tier. Consumer IoT increased to 487 million units compared to 409 million units a year ago. Industrial IOT shipments were 19 million units compared to 24 million units in the prior year. Despite the lower unit volume, industrial royalty revenues increased 7% year over year, reflecting a richer mix of higher value products, including automotive AI and wireless infrastructure. Looking at our connectivity technologies, These shipment metrics continue to demonstrate the breadth and diversification of our royalty base across multiple end markets. Bluetooth shipments decreased 16% year-over-year to 295 million units. Seller IoT shipment reached another record of 68 million units, up 3% year-over-year. Wi-Fi shipments increased 28% year-over-year to 80 million units. As for the balance sheet items, we ended the quarter with approximately $221 million in cash, cash equivalents, marketable securities, and cash deposits, providing significant financial flexibility to support continued investments in our technology roadmap, while maintaining a disciplined approach to capital allocation, including selective strategic M&A opportunities. Today's sales outstanding were 70 days. During the quarter, we generated $5.8 million of cash from operating activities. Depreciation and amortization expenses were $0.8 million, where capital expenditure totaled $0.6 million. At the end of the quarter, we employed 406 people, including 327 engineers, reflecting our continued investment in innovation while maintaining disciplined expense management. Tuning to the outlook. We delivered a strong first half of 2026, supported by strong licensing execution, Improving royalty trends and meaningful expansion in non-GAAP profitability. Just as importantly, the quality of the customer engagement we secured during the first half provides a strong foundation for future growth across both licensing and royalties. Reflecting our first half performance and current visibility, We are raising our full-year revenue outlook. We now expect 2026 revenue to increase between 13 and 15 percent over 2025, compared with our previous expectation of 12 percent growth that we shared at the end of the first quarter. We continue to expect the second half to be stronger than the first. Consistence with our normal seasonal profile while recognizing that memory pricing dynamics and broader supply constraints remain important industry variables. On the expenses, we maintain our previous guidance. Total non-operating cost of revenues and operating expenses are still expected to increase by approximately 8% on an annual basis over 2025. As we continue to invest in our roadmap while carefully managing costs, mitigation, foreign exchange hindrance. As a result, the stronger revenue growth together with disciplined expense management, we now expect non-GAAP operating income to increase approximately 70%, seven zero, year over year. while non-GAAP net income is expected to increase approximately 50%, 5-0, both above our previous expectations. Third quarter guidance. Revenue is expected to be in the range of $30.5 million to $34.5 million. Gross margin is expected to be approximately 87% on GAAP basis and 88% on non-GAAP basis, excluding approximately $0.2 million of equity-based compensation expenses and $0.1 million of amortization of required intangibles. GAAP operating expenses are expected to be between $28.2 and $29.2 million, including approximately $5.4 million of equity-based compensation expense, and $0.1 million for amortization of acquired intangibles and $0.1 million for acquisition-related costs. Non-GAAP operating expenses are expected to be similar to the second quarter level between $22.5 to $23.5 million. Net financial income is expected to be approximately $2 million Income tax expense is expected to be approximately $1.9 million. And weighted average diluted share count is expected to be approximately 28.2 million shares on GAAP basis and 30 million shares on non-GAAP basis. Rocco, we are ready to take the questions now.

Rocco | Conference Operator:

Yes, sir. We will now begin the question and answer session. To ask a question, you may press star then 1 on your telephone keypad. If you're using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press star then 2. And today's first question comes from Kevin Cassidy at Rosenblatt Securities. Please go ahead.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Yeah, thanks for taking my question, and congratulations on the strong result. You know, you had mentioned about a large company bringing They're wireless design in-house rather than buying someone else. Is that a trend you're seeing longer term? And maybe you could talk about the trend you're seeing for more integration of technologies vertically within your customers.

Amir Panush | Chief Executive Officer:

Yeah, definitely, Kevin. Good morning, and thanks. Yeah, definitely, we see this as a trend. It's part of our strategy, as I mentioned also on the previous calls. was to really come with a complete offering of IP, including the radio IP. And what we see, some of the customers are basically looking for a complete turnkey offering that they can so-called integrate into their complete portfolio and taking that very quickly in terms of time to market and proven technology and solution. So definitely we see some of those OEM and semiconductors companies looking to get the full solution from us.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, what does that mean for SEBA? I mean, a little more stickiness to your IP, you know, if you're selling more to one customer or, I guess, just less OpEx involved? You know, I guess, what is that? This is a positive trend for SEBA? Yeah, Kevin, thanks for the question.

Amir Panush | Chief Executive Officer:

Yeah, that's definitely a very positive trend. It actually brings three additional value scores. One, On the agreement itself, the licensing agreement is what we see both the licensing in terms of the deal size as well as the future royalty is meaningfully higher than just selling the component IP. But also on top of that, it's really the stickiness with the customers. That helps the customers to reduce their own engineering effort and relying more on SIVA capabilities, which they drive a stronger stickiness moving forward. as well as really it helps significantly in the discussion of the mix versus buy. It's harder for large companies to rely on SIVA technology if we provide only partial solution or just part of the component IP. The more we're offering the complete solution, it's easier for them and drive more the decision towards buying IP from SIVA rather than doing that internally. So although this is a very, very positive trend, and fit very well to our strategy of how we drive our engineering activities and overall innovation in IT.

Yaniv Arieli | Chief Financial Officer:

Kevin, I maybe would add one more thing that in the wireless markets, there are new trends that come every couple of years, every year to two years and depends on the technology itself, new standards, the new features. So by being able to provide those, we also have recurring revenues of new licensing deals for every one of these enhancements going forward. So it's a very strong stickiness mechanism also because of the nature of those wireless connectivity that get upgraded and updated all the time. And we're able, obviously, to do that.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay, great. Congratulations again. Thank you.

Rocco | Conference Operator:

Thank you. And our next question today comes from Suji De Silva at Roth Capital. Please go ahead.

Suji De Silva | Senior Equity Research Analyst, Roth Capital Partners:

Hi, Amir. Yaniv, congratulations on the progress here. Amir, you talked at length about how you're engaging deeper with the customers, maybe a hardware-software integration, perhaps more sort of product development effort. Is this going to result in more custom IP blocks or more continued standard products? And will it affect kind of how we should think about royalty rate for you guys? Is that the right framework to think about these kind of engagements?

Amir Panush | Chief Executive Officer:

Yeah, so definitely overall within our mix of licensing agreements, we do see more, I would call it, custom solutions offering and demand from the market. And that's again, that goes along very nicely with the trends of how we're investing in our resources and what we see as a potential in the market. Going back to your point on royalty, it's actually where we see significant potential increase of those royalty as the royalty per unit that we can extract by providing the custom offering and the complete offering is meaningfully higher than a component IP. For example, we talked about a very strategic new AI deal that we've just signed with one of the top large OEMs out there that have both operating system capabilities and hardware and software. That level of integration and customization drives significantly much higher quality per unit that we will get versus our typical NP offering.

Suji De Silva | Senior Equity Research Analyst, Roth Capital Partners:

Okay, Amir. That's great. Thanks. And then my other question is on the edge AI market and the trend toward edge AI in the cloud. There's a lot of kind of a chip and IP sort of opportunity there from various parts. I'm wondering if there are any particular end applications that are initially good opportunities for you as you see traction in the edge AI market or where We should think about your best near-term efforts, opportunities are.

Amir Panush | Chief Executive Officer:

So we definitely see that in the high-end compute edge markets, whether it's the PC, the mobile, those type of applications. We also see it right now entrenched very, very deeply in the automotive for the system. And what we will see more is into robotics, humanized. This is right now coming also into play.

Suji De Silva | Senior Equity Research Analyst, Roth Capital Partners:

Okay, thank you, Mayor. Thank you. Thank you, Suji.

Rocco | Conference Operator:

And our next question today comes from Natalia Winkler with UBS. Please go ahead.

Natalia Winkler | Analyst, UBS:

Hi, thank you so much for taking my question. I had two. So one is on the smartphone. You mentioned improving share of the entry smartphone as well as premium. Could you please speak a bit more? What are you seeing there and maybe what's kind of helpful from the standpoint of share gains on the entry-level smartphone for you guys?

Amir Panush | Chief Executive Officer:

Thanks for the question. So related to the entry point customer or the lower tier customers in the health and mobile market, definitely we've seen very meaningful recovery and the royalty between Q2 and Q1. So this quarter we've seen very nice recovery. And we're also seeing that they are basically gaining market share against their competition. So overall, we see there is a very positive momentum as we go into the second half of the year. and definitely the other large U.S. OEMs. The expectation is that we go more with their internal model that should provide for us also a market gain share as we move into the second half.

Yaniv Arieli | Chief Financial Officer:

I'll add some more color. Unisoc, our Chinese customer and the low-cost smartphone, first is moving gradually more and more to 5G from being the day leader volume-wise in 4G. and the prior generation. That means also higher ASPs for us. And if you Google and look around, you'll see that they have won a few dozens of different design wins recently in the last quarter with good brands, local and Chinese brands, including Vivo, Xiaomi, which in the past, used Mediatek to more extensively. So these are nice design wins. As long as this continues, both market share gains for them and volume expansion with the higher 5G share in that market going to Unisoc, that will also benefit SIVA, and this is an important high-volume market for us as well.

Natalia Winkler | Analyst, UBS:

Thank you, that's very helpful. And then the second question I had was, you know, now that ARC has been acquired by Global Founders, are you guys seeing sort of any additional momentum in your licensing business, maybe for the NPU licensing business with that transition?

Amir Panush | Chief Executive Officer:

Yeah, definitely we see it as a tailwind for our business moving forward, especially for NPU and NUFO and product line. where the competition will be more favorable for us because we really focus on that IP as a complete platform while over there it will be done differently. So that's a good point, Natalia. We will definitely sit there as a tailwind in helping us to compete better in the U.S. and the Western world with R&D. And we just signed one of those very strategic deals this quarter as part of that momentum.

Natalia Winkler | Analyst, UBS:

Awesome. Thank you.

Yaniv Arieli | Chief Financial Officer:

Rocco, next question. Hello.

Call Moderator | Conference Moderator:

Rocco, are we taking more questions? Sorry, everybody, just hold on one minute. We're trying to get reestablished here with the call center. Sorry, everyone. We're still trying to work this out. Sort of lost the operator.

Richard Kingston | Vice President, Market Intelligence, Investor and Public Relations:

Hi, just in the interest of time here, I'm going to see if any of the other analysts in the queue want to email me their questions and I'll read them out and we can answer that way if that makes sense. So if any of the analysts in the queue want to email me directly now, I'll ask the question on the line.