

NASDAQ:SILC Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the Silicon Second Quarter 2025 Results Conference Call. All participants are present in listen-only mode. Following management's formal presentation, instructions will be given for the question and answer session. As a reminder, this conference is being recorded. You should have all received by now the company's press release. If you have not received it, please contact Silicon's Investor Relations Team at EK Global Investor Relations at -378-8040 or view it in the news section of the company's website, -usa.com. I would now like to hand over the call to Mr. Kenny Green of EK Global Investor Relations. Mr. Green, would you like to begin, please?

Kenny Green | Investor Relations, EK Global Investor Relations:

Thank you, operator. I would like to welcome all of you to Silicon's Quarterly Results Conference Call. Before we start, I would like to draw your attention to the following Safe Harbor Statement. This conference call contains forward-looking statements. Such statements may include, but are not limited to, anticipated future financial and operating results and Silicon's outlook and prospects. Those statements are based on management's current beliefs, expectations, and assumptions, which may be affected by subsequent business, political, environmental, regulatory, economic, and other conditions and are subject to known and unknown risks and uncertainties and other factors, many of which are outside Silicon's control, which might cause actual results to differ materially from expectations expressed or implied in the forward-looking statements. These include, but are not limited to, Silicon's increasing dependence for substantial revenue growth on a number of limited customers, the speed and extent to which Silicon solutions are adopted by relevant markets, difficulties in the commercializing and marketing of Silicon's products and services, maintaining and protecting brand recognition, protection of intellectual property competition, disruptions to manufacturing and sales, and marketing, development and customer support activities, the impact of war in Israel and in Ukraine, rising inflation, changing interest rates, volatile exchange rates, as well as any other continuing or new effects resulting from the COVID-19 pandemic, and global economic uncertainty, which may impact customer demand through customers exercising greater caution and selectivity with their short-term IT investment plans. The factors noted are not exhaustive. Further information about the company's business, including information about factors that could materially affect Silicon's results of operations and financial conditions, are discussed in Silicon's annual report on Form 20F and other documents filed by the company, and that they be subsequently filed by the company from time to time with the Securities and Exchange Commission. Therefore, there can be no assurance that actual future results will not differ significantly from anticipated results. Consequently, investors are reminded not to rely on these forward-looking statements. Silicon does not undertake to update any forward-looking statement as a result of new information or future events or developments, except as may be required by law. In addition, following the company's disclosure of certain non-GAAP financial measures in today's earnings release, such non-GAAP financial measures will be discussed during this call. Such non-GAAP measures are used by management to make strategic decisions, forecast future results, and evaluate the company's current performance. Management believes that the presentation of these non-GAAP financial measures are useful to investors' understanding and assessment of the company's ongoing core operations and prospects for the future. Unless otherwise stated, it should be assumed that the financial discussed in this conference call will be on a non-GAAP basis. Non-GAAP financial measures disclosed by management and provided as additional information to investors to provide them with an alternative method for assessing the company's financial condition and operating results. These measures are not in accordance with or a substitute for GAAP. A full reconciliation of non-GAAP to GAAP financial measures are included in today's earnings

release, which you can find on Silicon's website. And with me on the line today are Mr. Liran Eisenman, President and CEO, and Mr. Eran Girad, CFO. Liran will begin with an overview of the results followed by Eran who will provide the analysis of the financials. We'll then turn the call over to the question and answer session. And with that, I would now like to hand the call over to Liran. Liran, please go ahead.

Liran Eisenman | President and CEO:

Thank you, Kenny. I would like to welcome everyone to our 2020-2025. We are pleased with the progress made in the second quarter of 2025 and happy to report another quarter of execution ahead of our strategic plan, including strong design win momentum, success across all our product lines, and excellent cash flow. Furthermore, we are pleased with our design win momentum, which is tracking ahead of our expectations. Since the beginning of the year, we have achieved five major new design wins with important new customers as well as existing ones, building an impressive mid to long-term pipeline that puts us with close reach of our goal of seven to nine design wins for 2025 as a whole. We see design win as the most tangible indicator of our progress, as well as our breadth and depth of our design win opportunity fund. The renewed focus on our core product lines coupled with deep relationship with our customers and potential new customers has created a solid pipeline positioning us for future growth. We expect to convert this pipeline to further design wins throughout 2025 and beyond. We are successfully advancing and meeting our milestones with our various customers and projects and are increasingly optimistic about our ability to achieve double-digit revenue growth in 2026 and beyond, thereby delivering significant value for our shareholders. In terms of the financial results for the quarter, we delivered revenue of \$15 million at the midpoint of our guidance range. Our balance sheet has remained very strong and during the quarter we increased our cash and equivalents by \$3 million. At June end, our working capital and marketable securities totaled \$116 million, including \$80 million in cash deposits and highly rated bonds, with no debt representing approximately \$20 per share. This ensures we can maintain adequate investment in our business and growth engines without compromise going forward. In the second quarter, we secured three significant design wins, one with the Fortune 500 cloud-based service provider for our FPGA SmartNIC, one with the global network test equipment leader for our 100 gigabit NICs, and one with the US-based edge networking provider for our advanced edge system. The three demonstrate the breadth of our product portfolio as well as the depth of our customer relationships and our ability to foster new ones. Importantly, those wins span across all major product lines, at edge systems, FPGA SmartNICs, and high performance NICs, reflecting the relevance of our solution across diverse market needs. This diversity of new design wins across product categories and customer types is a key factor in building a strong and balanced growth foundation. A recent design win with the US-based edge networking provider demonstrating the strength of our reputation as a trusted technology partner. The customer selected our customized edge device to enhance scalability, security, and efficiency. Initial deployments are expected by year-end 2025 with full ramp up in 2026. This customer is also exploring multiple additional projects, each with \$1 million plus potential in annual revenues, and another customized edge product for a separate use case with the potential of several million dollars at full run rate. Following a year-long technical evaluation, we achieved a major design for our FPGA SmartNIC solution with a new Fortune 500 cloud-based service provider in North America. This win reflects the superior performance and reliability of our technology. Initial deliveries are planned for late 2025 with full ramp up throughout 2026 and an annual revenue potential of \$4 million. This design win positioned us as a strategic technology partner to one of the most influential players in the cloud services and industry. We view this as just the beginning of a broader relationship with opportunity to supply additional components and systems on a global scale. We also achieved a new design win with a global leader in advanced networking testing equipment and long-standing customer of ours, selecting our 100-gig NIC for their next generation platform. This expands our relationship with this important customer as we now provide both cards and systems positioning us to participate in the majority of their future hardware tenders. Initial purchases orders have been placed with mass deployment expected in early 2026 with a revenue potential of \$2.5 billion at full ramp up. This win underscores the innovation and reliability of our high-performance NIC portfolio and our abilities to meet stringent performance and tight cost requirements. Customers like this form the backbone of our long-term

growth strategy, building steady long-term relationships that lead to multiple revenue streams down the road. Each of those wins represent combination of many months and even years of work. They reflect the core of our strategy, building new and deepening long-term relationships that evolve into multiple high-value engagements, creating reliable and diversified revenue streams for a broad range of silicon products. Beyond their own recurring revenue potential, those wins open the door to additional opportunities with the same customers and provide strong referrals for new customers, further strengthening our position in key markets. Together with the growing pipeline of potential customers evaluating our product, those achievements strengthen our confidence in meeting our target of seven to nine design wins during 2025. While their financial impact in the current year will be modest, they lay the groundwork for significant double-digit growth in years to come with the potential to exceed our strategic goals sooner if current opportunities ramp up faster than expected. Our pipeline of opportunities at the input of our Design Win funnel has never been broader with opportunities across all our product lines, including ad systems, smart nicks, and FPGA, spending both new and existing customers across multiple industries. We believe that in the coming years, we expect to see more of those opportunities transformed into design wins while continuously adding new opportunities at the entry of the funnel. I urge you to review our investor presentation, which includes examples of opportunities in our pipeline, as well as examples of those that have successfully passed through the funnel and become design wins. We believe that this dynamic process will continue to accelerate. Considering the strong pipeline, growing design win momentum, and giving our strong execution on all aspects of the strategy, we are well on track and even performing ahead of our expectations. Our overall goal is to create significant value for our shareholders with EPS of about \$3 on revenues between \$150 and \$160 million. A faster than forecasted deal closure or ramp up of ongoing projects may help us accelerate the timeline, and we are fully focused on making that happen. Growth for full year 2025 expected to be in the low single digits with a double-digit annual growth rate materializing gradually from 2026. We expect that revenues for the third quarter of 2025 will range from \$15 to \$16 million. In summary, we are pleased with our progress. We are executing ahead of our strategic plan and showing strong design win momentum supported by a robust pipeline across all our product lines and excellent cash flow. With a strong balance sheet, a proven track record of design wins with top-tier customers, and an experienced, highly dedicated team, we are confident in our ability to continue executing on our strategic plan. As such, we are even more optimistic about our ability to achieve double-digit revenue growth in 2026 and beyond, thereby delivering significant value for our shareholders. We remain focused on creating value for both our customers and our shareholders. We look forward to updating you on our progress as we move through the second half of 2025. With that, I will now hand over the call to Iran for a detailed review of the quarter results. Iran, please go ahead.

Eran Girad | Chief Financial Officer:

Thank you, Livon, and good day to everyone. Revenues for the second quarter of 2025 were \$15 million, 4% ahead of the \$14.5 million reported in the second quarter of last year. The geographical revenue breakdown over the last 12 months was as follows. North America, 74%, Europe and Israel, 16%, Far East, and the rest of the world, 10%. During the last 12 months, we had one 10% plus customer, which accounted for about 15% of our revenues. I will be presenting the rest of the financial results on a non-GAP basis, which excludes the non-cash compensation expenses in respect of options and RSUs granted to directors, officers, and employees, taxes on amortization of acquired intangible assets, as well as least liabilities financial expenses. For the full reconciliation from GAP to non-GAP numbers, please refer to the press release we issued earlier today. Gross profit for the second quarter of 2025 was \$4.8 million, representing a gross margin of .9% compared to a gross profit of \$4.3 million, or gross margin of .7% in the second quarter of 2024. While I note that our short- to mid-term expected gross margin range remains between 27% to 32%, we are very pleased with achieving a gross margin at the higher end of this range, ahead of our strategic plan model. Operating expenses in the second quarter of 2025 were \$7.2 million, compared with \$6.7 million reported in the second quarter of 2024. Our operating expenses in the quarter were higher than expected due to the relatively weaker US dollar, the currency in which we report, versus the Israeli shekel and the Danish tron, the main currencies in which a large portion of our expenses are generated. Operating loss for the second quarter of

2025 was \$2.4 million, compared to an operating net loss of \$2.4 million, as reported in the second quarter of 2024. Net loss for the quarter was \$2 million, compared to a net loss of \$0.9 million in the second quarter of 2024. Loss per share in the quarter was \$0.35. This is compared with loss per share of \$0.14, as reported in the second quarter of last year. Now, turning to the balance sheet, as of June 30, 2025, our working capital and marketable securities amounted to \$116 million, including \$41 million in high-quality inventory and \$80 million in cash, cash equivalents, and highly rated marketable securities with no debt. That ends my summary. I would like to end back over to the operator for a questions and answers session. Operator?

Operator | Conference Operator:

Operator Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. If you have a question, please press star 1. If you wish to cancel your request, please press star 2. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be pulled in the order they are received. Please stand by while we poll for your questions. The first question is from Ryan Koontz of Needham & Co. Please go ahead.

Ryan Koontz | Analyst, Needham & Co.:

Ryan Koontz Great, thanks. Nice updates on the design wins. I wanted to ask about some of your end markets here. Some of the biggest ones appear security markets. That's a key driver for several of your design wins across your sectors here. Are you seeing changes in that market in terms of share shifts among your customers or this recent big acquisition that went down for Palo Alto or Cyber? Do you see consolidation or shifts affecting your opportunities, either improving or declining opportunities there?

Liran Eisenman | President and CEO:

David Pesce You are right. The security market is a very important market for us. We don't see any impact for that. If anything, we just see the cyber security market keeps growing and growing by pretty much every research, I think. We see evaluation of companies and we see revenues of companies. We are very happy that we are in this market and we don't see any consolidation right now.

Ryan Koontz | Analyst, Needham & Co.:

Ryan Koontz Great. I saw that the ADC market is also another important area. You saw F5's results last night, but they are seeing a real shift away from software-based solutions back to hardware. I wonder if that affects many of your opportunities in the ADC market as they move to hardware-based solutions more predominantly.

Liran Eisenman | President and CEO:

David Pesce Yeah. The F5 results last night is a very good reference to see that many, many companies are looking at hardware more and more. We have many new products coming up for this market. If it's post-quantum ciphers, which is a very important thing that will become basically mandatory in the near future. We have a solution for that to accelerate over hardware solutions. In the SASE market, we have many customers as well. You see this networking plus security market exploding pretty much. Everyone needs hardware, different types of hardware, more acceleration on the hardware side as traffic becomes more challenging, encrypted, and quantum encrypted in some cases. We see needs for special switches and we're definitely working in that area to have interesting products later this year. There's a lot of excitement for us in this market and the opportunities that will come up. Not only software, as we said, but definitely on the

hardware side for this market.

Ryan Koontz | Analyst, Needham & Co.:

Great. Then lastly, just touching on AI, we're seeing a lot of shifts in the big public cloud builders away from traditional cloud infrastructure over to AI clusters, just really large gap shifts. I wonder if that affects many of your market opportunities. I saw you have a very large AI data infrastructure opportunity there and how you think about how AI affects your TAM going forward.

Liran Eisenman | President and CEO:

I think it can affect it significantly. When we are looking at that market, we already have several products that fit into this market. We are thinking more and more and seeing that the new AI architectures in training and inference, both on the edge and both on the data center, requires certain acceleration and certain systems that we are able to build specifically on FPGA. FPGA could be dramatic here in order to provide solutions that do not exist today. We think we have the right team and the right know-how to build those products. We're already discussing with potential customers, so this could become significant as well for Silicon.

Ryan Koontz | Analyst, Needham & Co.:

Maybe one last one, if I can squeeze it in. Just the competitive environment, you see many shifts there or any impacts on your gross margin expectations for business?

Liran Eisenman | President and CEO:

Not so much. Nothing I think we should report at the moment. Okay, thanks so much. That's all I've got. Thank you.

Operator | Conference Operator:

If there are any additional questions, please press star one. If you want to cancel your request, please press star two. Please stand by while we poll for more questions. There are no further questions at this time. Before I ask Mr. Eisenman to go ahead with his closing statement, I would like to remind participants that a replay of this call will be available by tomorrow on Silicon's website, -usa.com. Mr. Eisenman, would you like to go ahead with your closing statement?

Liran Eisenman | President and CEO:

Thank you, operator. Thank you, everybody, for joining the call and your interest in Silicon. We look forward to hosting you on our next call in three months. Good day.

Operator | Conference Operator:

Thank

Liran Eisenman | President and CEO:

you.

Operator | Conference Operator:

This concludes Silicon's second quarter 2025 results conference call. Thank you for your participation. You may go ahead and disconnect.