

# NASDAQ:SILC Q3 2025 Earnings Call Transcript

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## Operator | Conference Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the SILICOM third quarter 2025 results conference call. All participants are at 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 1-212-378-8040 or view it in the news section of the company's website, [www.silicon-usa.com](http://www.silicon-usa.com). I would 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:

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 and explain the future financial 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 of Silicon's control, which may 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 of a limited number of customers, the speed and expense to which Silicon's solutions are adopted by the 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, rising inflation, changing interest rates, volatile exchange rates, as well as any concerning or new effects resulting from pandemics 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 can materially affect Silicon's results of operations and financial conditions, are discussed in Silicon's annual report on Form 20-F and other documents filed by the company that may be subsequently filed by the company from time to time with the Securities and Exchange Commission, the SEC. Therefore, there can be no assurance that actual future results are not materially or significantly from anticipation itself. Consequently, investors are reminded not to rely on those forward-looking statements. Silicon does not undertake to update any forward-looking statements 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 managers to make strategic decisions, forecast future results, and evaluate the company's current performance. Managers believe that the presentation of these non-GAAP financial measures are useful to investors' understanding and assessment of the company's ongoing operations and prospects. for the future. Unless otherwise stated, it should be assumed that the financials discussed in this conference call will be on a non-GAAP basis. Non-GAAP financial measures disclosed by management are provided as additional information to investors to provide them with the necessary method for assessing the company's financial conditions 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 us on the line today, we have Mr. Liron Tyson, President and CEO, and Mr. Eran Gilad, CFO. Liron will begin with an overview of the results, followed by Eran, who will provide an analysis of the financial results. We'll then turn over the call to the question and answer session. And with that, I would now like to hand the call over to Liron, the CEO. Liron, please go ahead.

## **Liron Tyson | President and Chief Executive Officer:**

Thank you, Kenny. I would like to welcome everyone to our conference call to discuss the results of the third quarter of 2025. We are pleased with the ongoing progress that we have made in the third quarter, marked by another period of strong execution in line with our strategic plan and demonstrating solid design win momentum and success across varied product lines. The design win momentum is tracking ahead of expectations. Since the beginning of the year, we have achieved eight major new design wins with important new customers as well as existing ones, which builds out for us an impressive roster of design wins, the key for our expected growth from 2026 and beyond. I remind you that our goal was to reach between seven and nine design wins for the full year of 2025. As of October end, we have suppressed the lower end of our 2025 target and with two months left to the end of the year, we are just one design win short of the upper end of this ambitious target range. We see new design wins as the most tangible indicator of our progress, in addition to the breadth and depth of our opportunities funnel. The focus on our core product lines, coupled with deep relationship with customers and potential new customers, has created this solid funnel. We expect to continue to convert this funnel to further design wins in 2026 and have set for ourselves a new aggressive target of between seven to nine additional design wins in the coming year, spanning all product lines, including FPGAs, ad solutions, and smart NICs. Our third quarter performance demonstrates that we are successfully advancing and meeting our milestones, and our solid momentum underlies our optimism for returning to double-digit revenue growth in 2026 and beyond. In terms of financial results for the quarter, we reported revenues of \$15.6 million in the upper half of the quarter's guidance range. Our balance sheet has remained very strong. At September end, our working capital and marketable securities totaled \$114 million, including \$76 million in cash, deposits, and highly rated bonds, with no debt representing approximately \$20 per share. The financial strengths provide us with flexibility that we need to execute on our strategy and seize opportunities as they arise. I would like to focus on our design win momentum. In the third quarter, we secured three significant design wins, and earlier this week, we announced another important and fourth recent design win. Each ring demonstrates the strength of our product portfolio, the trust of our customer base, and most importantly, it is a solid indication of the successful implementation of our growth strategy. Those new design rings span all our product lines, FPGA, SmartNICs, and edge networking systems, and are for a variety of applications, underscoring the continued relevance of our solutions across diverse customer needs and market segments and applications. One of those design wins was awarded by a long-term network optimization customer of ours. This customer selected our advanced ad system as a platform for several of its next-generation appliances. With this expansion, our business with this customer is expected to increase dramatically to around \$4 million annually at the full run rate. This win highlights the natural progression of our deep relationship with this customer, from networking cards to FPGA smart cards and now to edge systems. More broadly, it reflects our strong customer partnership drive, repeat and expanding engagement across all our product lines, while also laying the groundwork for other opportunities, including additional innovative edge platforms currently under discussion. We also achieved the first design win with the U.S.-based provider of multi-site networking solutions, which selected our customized edge device to enhance scalability, security, and efficiency across its customer base. Initial deployments are expected to begin by year-end 2025 with a projected run rate of approximately \$1 million annually in 2026. Importantly, the customer is pursuing several additional sizable projects, each with multimillion-dollar revenue potential, and is in discussion with us regarding another customized edge product for a separate use case, together representing a significant long-term growth opportunity. Earlier this week, we secured a design win from a leading SaaS provider, which selected our edge networking system combined with a silicon NIC to support wired 5G and Wi-Fi connectivity. Initial orders amounted to approximately half a million dollars, with full deployment run rate expected to reach around \$3 million annually. We see strong further potential, and we

are discussing with this customer the adoption of an additional silicon platform. We were particularly excited to achieve our second post-quantum cryptography-related win from a tech giant with a span of just a few months, providing strong validation of our leadership in this critical emerging space and serving as a reference point for further opportunities. The design win was from a global application delivery leader for our advanced FPGA smart card, incorporating SSL hardware acceleration and post-quantum cryptography offload. This solution will enable the customer to deliver high-performance enhanced scalability, and simplified secure connections. Ramp-up is expected through 2026 with annual revenues anticipated to reach \$2 million run rate. Although quantum computers are not likely to be widely available for several years, Suppliers of communications equipment and services must plan now in order to defend effectively against harvest-now-decrease-later attack strategies. We are seeing that regulators and enterprises are already preparing for the future security threat they pose to privacy since quantum attacks have the potential to break today's widely used encryption standards. Forward-looking companies are therefore moving early to integrate PQC into their architectures to ensure business continuity, meet emerging privacy and compliance requirements, and position themselves as leaders in secure infrastructure in a post-quantum world. Our PQC-ready smart cards put silicon ahead of the adoption curve at the forefront of this future transition. The fact that we already offer a mature PQC-ready solution differentiates us clearly as an advanced technology partner, bringing us interest from both equipment suppliers and service providers. All those design wins demonstrate again the value of our broad portfolio and our stunning reputation as a trusted partner. Each of those wins represents a culmination of extensive technical collaboration and customer trust, reinforcing our strategy of building enduring relationships that evolve into multiple high-value engagements. Together, the design wins achieved throughout 2025 establish a solid foundation for accelerated growth from 2026 onward and strengthen our confidence in maintaining our momentum into 2026 and, importantly, marking our return to long-term double-digit revenue growth. The opportunities final remains broad, spanning all our product lines, ad systems, smart links, and FPGA solutions, addressing both new and existing customers across multiple industries and multiple applications. I urge you to review our investor presentation, available on our website, which highlights many of those opportunities, as well as examples of those that have successfully passed through the opportunity funnel to become design wins and source of recurring revenues. As we move into 2026, we expect to see many more opportunities in our funnel transforming into design wins, with numerous new opportunities for all of our product lines consistently entering the funnel. As I mentioned earlier, our newly announced target for 2026 is to achieve seven to nine new design wins, driving forward our growth strategy and providing the foundation for sustainable long-term value creation at Silicon. In terms of guidance, for the fourth quarter of 2025, we expect revenues in the range of \$15 to \$16 million, and we continue to anticipate double-digit annual growth rate in 2026 and beyond. Our overall objective remains unchanged, to create significant long-term value for our shareholders by achieving EPS above \$3, which we expect to reach as revenues scale to \$150 to \$160 million range. Importantly, a faster ramp-up of certain high-potential deals currently in the pipeline would accelerate this timeline, enabling us to achieve our strategic goals ahead of schedule. In summary, we are very pleased with our continued progress in 2025. With eight major new design wins already secured year to date, well within the target range for the full year, we are executing ahead of the plan and building strong momentum across all our product lines. We remain focused on continuing to build long-term customer relationships and expand our design win funnel, providing a solid foundation for the accelerated double-digit growth we expect from 2026. With our unique technologies, a highly satisfied and growing customer base, a motivated team, as well as strong balance sheets to support all our endeavors, we are ideally positioned for 2026 and beyond, with the ultimate goal of delivering significant long-term value for our shareholders. We look forward to updating you on our progress as we close out 2025 and head into 2026, which we believe will be an infection year for silicon. With that, I will now hand over the call to Iran for a detailed review of the quarter results. Iran, please go ahead.

## **Eran Gilad | Chief Financial Officer:**

Thank you, Liron, and good day to everyone. Revenues for the third quarter of 2025 were \$15.6 million, 6% ahead of The \$14.8 million reported in the third quarter of last year. The geographical revenue breakdown over the last 12 months was as follows. North America, 75%. Europe and Israel, 17%. Far East and rest of the world, 8%. During the last 12 months, we had one 10% plus customer, which accounted for about 14% of our revenues. I will be presenting the rest of the financial results on a non-GAAP 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 lease liabilities, financial expenses. For the full reconciliation from GAAP to non-GAAP numbers, please refer to the press release we issued earlier today. Gross profit for the third quarter of 2025 was \$5 million, representing a gross margin of 31.8%, compared to a gross profit of \$4.2 million, or gross margin of 28.8%, in the third quarter of 2024. While I note that our short to mid-term expected growth margin range remains between 27 to 32 percent, we are very pleased with achieving a growth margin at the higher end of this range ahead of our strategic plan model. Operating expenses in the third quarter of 2025 were \$7.4 million, compared with \$6.5 million reported in the third quarter of 2024. Our operating expenses in the quarter were higher than expected due to the relative weakness of the U.S. dollar, the currency in which we report, versus the Israeli shekel and the Danish crown, the main currencies in which a large portion of our expenses are generated. Operating loss for the third quarter of 2025 was \$2.4 million compared to an operating loss of \$2.3 million as reported in the third quarter of 2024. Net loss for the quarter was \$2.1 million compared to a net loss of \$1.7 million in the third quarter of 2024. loss per share in the quarter was 36 cents. This is compared to his loss per share of 28 cents as reported in the third quarter of last year. Now, turning to the balance sheet, as of September 30, 2025, our working capital and marketable securities amounted to \$114 million, including \$46 million in high-quality inventory and \$76 million in cash, cash equivalents, bank deposits, and highly rated multiple securities with no debt. That ends my summary. I would like to hand back to the operator for the questions and answers session. Operator?

## **Operator | Conference 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 polled in the order they are received. Please stand by while we poll for your questions. I repeat, if you have a question, please press star 1. The first question is from Rain Kuntz from Needham.

## **Jeff Hopson | Analyst, Needham & Company:**

Hi, this is Jeff Hopson on for Rain Kuntz from Needham. Just wanted to understand maybe more where Silicon could fit in with the ongoing AI narrative. Obviously ASICs have a place in AI, but I would think there are also specialized situations where your guys' NICs could be utilized. So just maybe some more info on that.

## **Liron Tyson | President and Chief Executive Officer:**

Absolutely. So when we look at AI, we see opportunities in a few areas. different product lines, maybe even all product lines, to be more accurate. So on the one side, we see opportunities for our NICs, our high-speed NICs, 400-gig NICs. Those are just the right equipment you need for the inference systems as well as the training systems. So this is one area that we think this could be very good potential. Another area is with the FPGA because a lot of A lot of things are not really well-defined still, I would say, in AI systems, and there's a lot of proprietary communication and protocols that FPGA can reach the gap there, where ASICs are not available right now and probably will not be in the foreseeable future. And the third one is also on the edge

systems, where we are able to see opportunities for opportunities for edge inference. We actually just had a webinar together with Intel about it yesterday, showing some use cases of AI at the edge, and we feel there's opportunities with all of them. Some of those are more advanced right now. Some of them are more early, exploratory, but I think we definitely have opportunities in all of them.

**Jeff Hopson | Analyst, Needham & Company:**

Thank you. And then looking at the presentation, you also have some large opportunities with service providers and some telco equipment. Just curious of the spending environment in those two in the telecom industry, if that's getting better or if there's certain things that are pushing spending or new types of hardware there.

**Liron Tyson | President and Chief Executive Officer:**

i mean we have discussions with with both service providers as well as oems and enterprises um service providers um we have like t1 also tier two tier three service providers some of them are the really big telcos and some of them are are smaller we we definitely see for our products or our type of products we see the need Customers see the need. They actually need our products for the next generation and to support their customers. So this is something that we feel will have good opportunities. We probably will also have design wins with service providers, so we feel good about it.

**Jeff Hopson | Analyst, Needham & Company:**

Perfect. Thank you. I'll pass it on.

**Operator | Conference Operator:**

I repeat. If you have a question, please press star 1. 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 SILICOM's website, [www.silicom-usa.com](http://www.silicom-usa.com). Mr. Eisenman, would you like to make your concluding statement?

**Liron Tyson | President and Chief Executive Officer:**

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

**Operator | Conference Operator:**

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