NASDAQ:SILC Q4 2025 Earnings Call Transcript

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Operator | Conference Call Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the SILICOM fourth quarter 2025 results conference call. All participants are at present in a 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 SILICOM's investor relations team at EK Global Investor Relations at 1-212-378-8040 or view it on the news section of the company's website www.silicone-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 State Harvest Statement. This conference call contains forward-looking statements. Such statements may include but are not limited to anticipated future financial or training 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, objects 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 coincide in the forward-looking statements. These include, but are not limited to, Silicom's increasing dependence on substantial revenue growth on a limited number of customers, the speed and extent to which Silicom solutions are adopted by relevant markets, difficulties in the commercializing and marketing of Silicom'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, impact of war, rising inflation, changing interest rates, volatile exchange rates, as well as any continuing effects or new effects resulting from pandemics, a global economic uncertainty which may impact customer demand through customers exercising a greater caution and selectivity with their short-term IT investment plans. The factors noted are not exhaustive. Further information about the company's businesses, including information about factors that can materially affect Silicon's results in operations and financial condition, are discussed in Silicon's annual report in Form 20F and other documents filed by the company that may be subsequently filed by the company from time to time in the Securities and Exchange Commission. Therefore, there can be no assurance that actual future results will differ significantly from anticipated results. Consequently, investors are reminded not to rely on 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 conference 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 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 financial disgust 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 an alternative method for assessing the company's financial position and operating results. These measures are not in accordance with or a substitute for GAAP. A full reconciliation of non-gap-to-gap financial measures are included in today's earnings release, which you can find on Silicon's website. With us on the line today are Mr. Liron Eisenman, President and CEO of Silicon and Mr. Eran Gilad's CFO. Liron will begin with an overview of the results, followed by Eran will provide the analysis of the financials. We will 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. Liron, please go ahead.

Liron Eisenman | President and CEO:

Thank you, Kenny, and good day, everyone. I'd like to welcome all of you to our call to share why we are truly excited about Silicon's momentum and potential ahead as we close out 2025 and move through 2026 and beyond. 2025 was a strong year of execution for Silicon. We are pleased to report better than originally projected growth for the year, with the design wind momentum giving us good visibility ahead. Q4 revenues grew 17% year-over-year to $16.9 million, well ahead of our guidance range between $15 and $16 million. It confirms that the demand for our core product is high, resilient, and strengthening. Our solid Q4 performance is in part due to the success of the strategic initiatives we undertook in earlier quarters, the progress we have made executing through 2025, and the resulting positive impact across our business. Furthermore, our opportunity pipeline is broader than it has ever been, and we continue to expand the pipeline for our core solutions. In 2025, we achieved eight major new design wins across edge systems, SmartNICs, and FPGA solutions, with both new customers and existing T1 customers expanding their engagements with us. Those design wins gave us strong visibility into 2026 and beyond, supporting our expectations for double-digit revenue growth for the year ahead. Just to give an example, a few weeks ago, we announced that the global networking and security as a service leader significantly expanded its deployment of Silicon Edge devices into multiple additional use cases, increasing our expected annual revenues from this customer from $3 to $4 million to between $8 and $10 million, more than double, with some of those incremental revenues expected in the coming months. This achievement highlights the strength of our blue-chip customer relationships, recurring revenue growth model, particularly our strategy of growing by expanding existing design wins alongside new customer wins. Looking ahead, based on the depth of our pipeline and ongoing customer engagements, we are again targeting between seven and nine design wins in the current year, spanning across all our product lines. This gives us strong confidence in the sustainability of the continued growth of our business through the coming years. With that, we are very optimistic about the potential ahead, and we expect to report accelerated double-digit revenue growth in 2026 and beyond. Our balance sheet remains very strong. At year-end, our working capital and marketable securities totaled $111 million, including $74 million in cash and deposits and highly-rated bonds with no debt. This represents approximately $20 per share. Beyond all this, our stable and growing core business, along with a fortress balance sheet, provides us with the flexibility to not only execute on our ongoing strategy, but also allow us to invest and capitalize on market opportunities. Today, I will discuss three tectonic shifts with powerful new growth potential in the technology infrastructure market that leverage our core expertise, capabilities, IT, and customer base that we intend to capitalize on. Both engines focused on those markets will give Silicon unique venture-style upside potential over and above the disciplined, well-capitalized, and stable-party company that we are known for. The three major structural shifts in infrastructure are AI inference, post-quantum cryptography, and white-label switching. Those are not small niche markets, and they are not cyclical trends. They are large markets undergoing structural changes in how infrastructure is built. They also share a common theme, timing. In each case, early positioning matters, but so does credibility and execution. That's where we believe our platform gives us a meaningful advantage. Let me start with AI inference, which we believe represents the largest opportunity for Silicon. AI infrastructure investments are shifting from training models to querying the models at scale known as inference. Inference is continuous, distributed, and extremely latency sensitive. While training preliminary happens via network GPU cards at the core of the data center, inference happens everywhere, continuously, at the edge, in telcos, and in enterprise data centers. This creates massive networking and interconnect bottlenecks, and that's exactly the problem that Silicon XL is solving. We already have initial orders for our inference-optimized FPGA-based solution to be utilized by our customer at a POC with a hyperscaler end user. And we are developing a dedicated AI NIC based on a leading high-performance networking chip for another AI inference leader. We have initial orders in hand and follow-on POCs underway. We are also engaging with multiple customers, and we are in advanced discussions with additional AI inference chip vendors. While it's still an early stage, this is increasingly becoming a real and huge potential opportunity for us, which is built directly on our IP, engineering experience, and leveraging existing customer relationships. This is a very large long-term and massive greenfield growth opportunity for Silicon, with the AI insurance hardware market expected to approach $80 billion plus level by the end of this decade. Our second potential upside engine is post-quantum cryptography, PQC, a future mandatory global security upgrade. Quantum computers are expected to have the eventual capability to break through today's encryption. That future risk is forcing governments, financial institutions, and infrastructure providers to act now to mitigate harvest-now-decrease-later attacks. This is not discretionary spending. It's a required transition, and this market is expected to grow to over $3 billion by 2030. We already offer one of the only production-ready, hardware-based PQC accelerator solutions available today, with clear cost and performance advantages over solutions in software. It's implemented networking hardware and encryption algorithms that quantum computers cannot decrypt, and is therefore considered safe in a post-quantum world. Our legacy in cryptographic acceleration, combined with FPGA flexibility, allows customers to migrate now, ensure backward compatibility, and remotely adapt new post-quantum algorithms as standards evolve. Two leading customers have already selected our solution for early deployment, leveraging long-standing relationships and existing IT. Our third new potential area for growth is white-label switching. which is the next phase of network disaggregation and is expected to reach over $6 billion by 2030. We already supply white-label Edge, SD-WAN, and SASE platforms to many Tier 1 customers. Expanding into switch-in is a natural extension of those relationships and capabilities. This transition mirrors what we've already seen in servers and storage. Disaggregation starts with hyperscalers and then expands into the broader market. That expansion is now happening in white-label switches into enterprises and service providers. Cost pressure, flexibility, and vendor independence are driving the shift, creating opportunities to take share for proprietary increments. We have already shipped initial quantities of multiple switch platforms to a leading cybersecurity customer and are engaged in discussions with others. Looking to the near future, in terms of guidance, We project that revenues for the first quarter of 2026 will range between $16.5 to $17.5 million, representing 18% growth year-over-year at the midpoint, which is a great start to 2026. This affirms our expectation of generating double-digit annual growth in 2026. In summary, Silicon's core business is growing ahead of our earlier projections. and we are very pleased with our progress in 2025. We look forward to continuing to build on it over the coming quarters and years. With eight major new design wins secured in 2025, we have a solid foundation for accelerated double-digit growth in the core business throughout 2026. Our solid pipeline of opportunities, momentum across all our product lines, combined with our deep customer relationships, make us believe that we will broaden our design win roster with a further seven to nine design wins during the current year. The three significant venture-style upside opportunities, AI inference networking, post-quantum cryptography, and wide-label switches that I highlighted have the potential to become massive growth engines on top of our core business over the years ahead. All of this is made possible by the unique platform we've built over the past two decades. A thriving core business, our technological expertise, a proven ability to execute, and our tier-one customer base, all backed by a rock-solid balance sheet. This enables us to invest in venture-scale growth while at the same time maintaining our conservative financial profile. Silicon represents a unique convergence, a company with a stable growing core business that addresses $100 billion plus in new opportunities in some of the hottest technology markets. We have the technology, the fortress balance sheet, and customers trust us to execute and look forward to further scaling our core business as we work to capture the venture-style upside. 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 | CFO:

Thank you, Liron, and good day to everyone. Revenues for the fourth quarter of 2025 were $16.9 million, 17% above the $14.5 million reported in the fourth quarter of last year. The geographical revenue breakdown over the last 12 months was as follows. North America 74%, Europe and Israel 17%, Far East and the rest of the world 9%. During 2025 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 required 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 fourth quarter of 2025 was $5.1 million, representing a gross margin of 30.2% compared to gross profit of $4.2 million, or a gross margin of 29.1% in the fourth quarter of 2024. I note that our short to mid-term expected gross margin range remains between 27 to 32%. Operating expenses in the fourth quarter of 2025 were $7.5 million, compared with $6.9 million reported in the fourth quarter of 2024. Our operating expenses were higher than expected due to the relative weakness of the US dollar, the currency in which we report, versus the Israel shekel and the Danish kron, the main currencies in which a large portion of our expenses are generated. Net loss for the quarter was $1.9 million, compared to a net loss of $5.1 million in the fourth quarter of 2024. loss per share in the quarter was 34 cents. This is compared with the loss per share of 87 cents as reported in the first quarter of last year. Now, turning to the balance sheet, as of December 31st, 2025, our working capital and marketable securities amounted to $111 million including $42 million in high-quality inventory, and $74 million in cash, cash equivalents, bank deposits, and highly rated marketable securities with no debt. That ends my summary. I would like to hand back to the operator for a questions and answers session. Operator?

Operator | Conference Call 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 leave the answer before pressing the number. Your questions will be called in the order they are received. Please stand by and report for your questions. The first question is from Ryan Cruz, New York. Please go ahead.

Jeff Hopson | Analyst, AI Team:

Hi, this is Jeff Hopson on for the AI team. Thanks for the question on the quarter. Just for the new three opportunities, the timeline seems like maybe AI inference is the most near term with those two customer discussions and orders. Is that kind of how you think about it, or maybe could you compare the timing between the three opportunities?

Liron Eisenman | President and CEO:

So all three opportunities, all of them, I would say, are in the initial stages right now. So from a quarter perspective, they have almost no meaningful revenue for this quarter, obviously. Even for 2026 as a whole, I think we are not – expect them to be still huge. There is an opportunity for that, but we definitely are expecting our core business to be very, very strong in 2026 and keep growing. And each of those opportunities can boom at any point in time, but right now we're still in the early stages. But we feel that we are very strong in the early stages and that we feel very strong traction on each of those.

Jeff Hopson | Analyst, AI Team:

Got it. Makes sense. I guess to follow up on that, Are you expecting similar sales cycles or design processes, the timeline to be similar than, you know, your historic business?

Liron Eisenman | President and CEO:

So in some of those projects we are, as we said, we're leveraging, existing IT and we're leveraging existing know-how. So it's not like we're starting from scratch. So for some of those opportunities, it's actually taking some of our existing products, making some changes on them so we can react very, very fast and it can actually be a quick road to revenue here and quick road to design wins. on some of the others we do need to do some development, but we already started with that. So we are deep into the development of some of those. So we think overall we are expecting it to be faster than what we've seen in the past.

Jeff Hopson | Analyst, AI Team:

Perfect. And maybe just one more from me. Are there any changes to kind of your sales process or any additional investments on that side go after some of these new opportunities?

Liron Eisenman | President and CEO:

We think we have the right team and the right size of the team and the right know-how and expertise And, you know, everything I said is not only true for one team. It's not only R&D. It's the R&D, it's the operation, it's the sales. The entire team is really well structured to support this growth. And the existing relationship that we had with customers that we're building on and capitalizing on, we expect to continue with that. So right now we think we're structured just with the right team and the right size and right investments, and we plan to keep doing that.

Jeff Hopson | Analyst, AI Team:

Great. Thank you very much.

Operator | Conference Call Operator:

The next question is from Greg Wheeler of Invicta Capital Management. Please go ahead.

Eran Gilad | CFO:

Good day.

Greg Wheeler | Analyst, Invicta Capital Management:

Thanks for the opportunity here. Just following up on this AI conference opportunity, you mentioned about connectivity model next. Can you get more specific in terms of what the use case is to you know, connect various nodes in an AI cluster or say an external memory? And when I see talk of UA link or alternate internet, is that kind of where you'd be playing?

Liron Eisenman | President and CEO:

So when, I mean, in general, yes. I mean, when we are talking about the challenges of networking, when we're talking about, and our focus is mainly on the inference side, as I said, and not on the training side. So the inference happens everywhere. And when we say everywhere, it could be at the edge of the network, it could be a local data center, it could be a telco data center, it could be even in the enterprise. And there are so many different installation types and deployment types and types of different networking they need to support. Then, you know, different cards, different companies developing different inference chips, not all of them able to provide all the different layers that they need to cope with. So they will only focus on the inference chip, but they need someone to complement it on the networking side. So if you want to do, as you said, scale out to multiple servers, multiple ports, how do you do it efficiently? How are you making sure that the network is not a bottleneck and that you actually get the most that you can out of the inference chip? That, I think, is the key. And there's no, like, it's very fragmented and very different from deployment type to another. That's where the opportunity is created.

Greg Wheeler | Analyst, Invicta Capital Management:

Okay, appreciate the color there. And kind of to follow up on the question about sales, you said your sales team is in place. How about R&D in terms of to support some of these new opportunities? Do we foresee more spending there?

Liron Eisenman | President and CEO:

Right now, we don't think that we need because, as I said, we are really building on the IT and the know-how and the team that we have that is running for so many years together. And it's an expert team. If we will need, obviously, we have the, as I said, we have the fortress here in terms of cash and everything we need in order to do that. If we will feel that we need to do it, right now we don't feel that we need to do it. But definitely we have the capabilities to do it. In any case, we don't expect it to be significant. Okay.

Greg Wheeler | Analyst, Invicta Capital Management:

Well, if you get some traction in some of these spaces, I wouldn't mind it. So thank you, Leon. Good luck. Okay. Thank you.

Operator | Conference Call Operator:

If there are any additional questions, please press star 1. If you wish to cancel your request, please press star 2. Please stand by for only four or 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 reader of this call will be available by tomorrow on Silicon's website, www.silicon-usa.com. Mr. Eisenman, would you like to make a concluding statement?

Liron Eisenman | President and CEO:

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 Call Operator:

Thank you. This concludes Silicon's fourth quarter 2020 Bible Book Conference. Thank you for your participation.