NASDAQ:SILC Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the Citicom first quarter 2026 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. If you have not received it, please contact Citicom'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. 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?

Connie | VP, 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 of the statement. During this call, we may make forwarding statements within the meaning of applicable security laws. These statements may include, among other things, statements regarding the company's strategy, market opportunities, customer demand, product development initiatives, industry trends, expected deployments of the company's solution, financial outlook, revenue expectations, margins, operating expenses, profitability, and future growth objectives. These statements involve risks and uncertainties that could cause actual results to materialize from those expressed or implied in such statements. These risks include among others those described in the company's press release issued today and in its findings with the U.S. Securities and Exchange Commission including its annual report on Form 20-S. The company undertakes no obligation to update any forward looking statements. I am the president and CEO of Iran. Iran will begin with an overview of the results, followed by Iran will provide the analysis on the financials. We will then turn the call over to the question and answer session. And with that, I will now hand the call over to Liron. Liron, please go ahead.

Liron Eisenman | President and CEO:

Thank you, Connie, and good day, everyone. I'm exceptionally pleased to share a truly excellent set of quarterly results, well ahead of our expectations. Over the next few minutes, I look forward to discussing why we are more excited than ever about Silicon's momentum and trajectory ahead. The first quarter of 2026 has been an excellent one for Silicon. Our core business has now reached a clear inflection point with extraordinary momentum in financial performance well ahead of the expectations we shared with you only a few months ago. The highly successful implementation of our strategic plan is clear and our business is decidedly outperforming on all fronts. Revenues this quarter came in at $19.1 million, representing a year-over-year growth of 33%, significantly ahead of our guidance range, which had originally expected an 18% year-over-year growth at the midpoint. This is the second quarter in a row of very strong improvement, with both quarters well ahead of our regional expectations. This quarter, even more so, we have seen a powerful upward inflection, with the year-over-year growth accelerating significantly and essentially doubling from 17% last quarter to 33% now. Not only did we suppress our revenue expectations this quarter, but our momentum continues to accelerate, and looking ahead, we anticipate even greater achievements for the second quarter. We expect second quarter revenues to range from $20 to $21 million, representing accelerated 40% growth on a year-over-year basis at the upper end of the guidance. Given the strong improvement in visibility we now have into the remainder of the year, we expect full-year 2026 revenues to be in the range of $82 to $83 million, representing an approximate 33% year-over-year growth. This exceptional

performance is a direct result of the design wins achieved in previous years and the ongoing discipline execution of our strategic plan. As those design wins ramp, we are seeing strongly expanding revenue contribution and materially improved visibility for the remainder of the year. We are seeing equally impressive traction on the design win front. As you recall, we set ourselves a target of between seven and nine design wins for 2026, We are only third way through the year and we have already achieved four. Halfway towards our target which puts us on track to meet and possibly exceed the upper end of this target. Design Wins we achieved today will be the foundation for continuing strong growth into 2027 and beyond. I want to spend a few minutes focusing on some of the recent Design Wins we have achieved since the start of the year. At the start of the year, a global networking and security as a service leader expanded its deployment of silicon mesh devices into multiple additional use cases, more than doubling our expected annual revenue from this customer, from around $4 million to between $8 and $10 million, with some of the incremental revenues already flowing through this quarter. This achievement highlights both the strengths of our blue-chip customer relationships and our strategy of growing by expanding existing engagements alongside winning new ones. In February, a T1 cybersecurity customer, a longstanding partner, selected one of our aid systems as the platform for their next generation high-end product lines. To date, we have received initial orders of over $1 million for 2026, and we expect this engagement to double that. We are in discussions for additional product lines at this customer. This DesignWin is another great example of how our long-term customer relationships generate additive revenue contributions across our product portfolio over time. In March, we announced the DesignWin with one of the world's largest streaming service providers, which selected our high-speed networking adapter for deployment across its proprietary streaming infrastructure. We've already received an initial order for over $1 million, with total purchases over five years expected at $12 million. In parallel, we are in active discussions with the customer about a customized special form factor network adapter for the same infrastructure. If this materializes, it would more than double our networking-related revenues from this customer in the region of $25 to $30 million. In April, we announced a $3 million per year design win with a European leader in advanced encryption and secure communication solutions. After a successful evaluation, they selected an FPGA SmartNIC for deployment that includes post-quantum cryptography among its use cases, marking our third post-quantum cryptography design with to date and a key expansion of our PQC customer base. We have initial commitment of $1 million and beyond this, we are in active discussions about the next generation higher speed FPGA SmartNIC as well as a potential full system solution combining a server with an FPGA SmartNIC. opportunities that could meaningfully expand the partnership. Those four design elements demonstrate the breadth and the quality of our momentum across all our core product lines. Beyond the design we've already secured, our pipeline of opportunities is broader and deeper than it has ever been. It spans all our core product lines, ad systems, smart links, and FPGA-based solutions. and includes leading as well as fast-growing names across cybersecurity service providers, networking, and other key verticals. We expect part of this pipeline to continue to convert into design wind over the coming quarters, providing the foundation for accelerated growth in 2027 and beyond. While the return to strong growth within our core business is the main story, we continue to invest in three venture-style upside opportunities we spoke about last quarter. AI inference, post-quantum cryptography, and white label switching. I stress that we are not pursuing those opportunities to replace legacy core business. Quite the opposite. Those growth opportunities are edited. It's precisely because our stable growing core business is performing so well that we have the platform, the relationships, and the balance sheet strength to invest in those new growth engines, all of which leverage our IP and the same engineering talent that drive our core today. As I discussed last quarter, AI infrastructure investments are undergoing a fundamental shift from training models to querying the models at scale, known as inference. This shift is being dramatically accelerated by the rise of agentic AI, where autonomous agents generate continuous, high-volume inference workloads on behalf of users rather than the occasional single query of traditional chatbot interactions. A single agent completing a task can trigger hundreds or thousands of inference calls, and enterprises are deploying those agents across every function. The result is that the inference is rapidly overtaking training as the dominant driver of AI infrastructure spend, creating massive networking and interconnect bottlenecks at unprecedented scale, and that's exactly the We are making significant progress with two of the world's most promising contenders in the high-stakes race to architect the future of AI computing. Furthermore, we recently stated, started, in cooperation with a customer, the development of a new inference-specific product. We will share more details

as those engage in progress. We view our rapid progress and expanding footprint in this high-growth sector as a potential game-changer for Cisco. This is an exceptionally exciting and transformative time at Silicon. Our core business is accelerating at a remarkable pace, delivering 33% growth in the first quarter with the potential for even stronger growth in the second quarter, positioning us currently on track for a very strong four-year performance. Our design win engine is firing on all cylinders, with four already achieved out of our 729 target for 2026. putting us well ahead of our plan and giving us increased confidence in our ability to meet and potentially exceed our targets. Our pipeline across AI systems, smart things, and FPGA solution is the strongest and most expensive we have ever seen. Combined with our robust balance sheet, this gives us exceptional flexibility to invest aggressively in both our core growth and our high potential venture-style opportunities. all while maintaining a disciplined and conservative financial profile. We are very excited about Telecom's strong and accelerating momentum in 2026 and are moving aggressively and with confidence to fully capture the opportunities ahead. We are highly optimistic about its significant value. We are building and look forward to delivering strong and accelerating returns for our shareholders in the quarters ahead and over the long term. With that, I will now hand over the call to Iran for a detailed review of the quarter results.

Eran | Chief Financial Officer:

Thank you, Liron, and good day to everyone. I will review the financial results and business performance for the first quarter of 2026. Before beginning the financial overview, I would like to remind you that unless otherwise indicated, all financial results are non-GAAP. A full reconciliation of our results on a non-GAAP tool on a gift-to-non-gift basis is available in the press release issued earlier today. Revenues for the first quarter of 2026 were $19.1 million, 33% above the $14.4 million reported in the first quarter of last year. The geographical revenue breakdown over the last 12 months was as follows. North America 76%, Europe and Israel 14%, Far East and the rest of the world 10%. During the last 12 months, we had one 10% plus customer, which accounted for about 10% of our revenue. Gross profit for the first quarter of 2026 was $5.7 million, representing a gross margin of 30% compared to the gross profit of $4.4 million or gross margin of 30.3% in the first quarter of 2025. Operating expenses in the first quarter of 2026 were $7.6 million compared with $6.7 million reported in the first quarter Operating loss for the first quarter of 2026 was $1.9 million. An improvement from the operating loss of $2.4 million reported in the first quarter of 2025. The narrowing of the operating loss reflects the operating leverage we are beginning to see as our revenues return to strong growth and is a clear indication of the improving profitability profile we expect to deliver as our growth accelerates. We are very pleased with this positive trajectory which has been tracking ahead of our expectations. Net loss for the quarter was $1.5 million compared to a net loss of $2.1 million in the first quarter 2025. Loss per share in the quarter was 25 cents. This is compared with the loss per share of 37 cents as reported in the first quarter of last year. Now, turning to the balance sheet, our balance sheet remains very strong. As of March 31st, 2026, our working capital and multiple securities amounted to $106 and $9 million including $63 million in high-quality inventory and $63 million in cash equivalent and high-rated multiple securities with no debt. I would like to add a few words on the increase in inventory. We are intentionally building our inventory both to support our strong revenue trajectory and to safeguard our ability to ensure uninterrupted product delivery to our customers. This is a deliberate, proactive step that we are taking and leveraging our balance sheet strength to do so, which effectively mitigates the impact of the current extending lead times for memory chips and positions us well to continue to capitalize on the growth opportunities ahead. That ends my summary. I would like to hand back to the operator for a question and answer session. Operator?

Operator | Conference Operator:

Thank you. Ladies and gentlemen, at this time we'll 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 pulled in the order they are seen. Please stand by while we pull for your questions. The first question is from Ryan Coons of

Misen & Company. Please go ahead.

Ryan Coons / Greg Weaver | Financial Analysts:

Hey guys, thanks. Really nice quarter. Congrats on the results and terrific outlook. I wanted to ask you a little more detail on how we should think about timing. I'm just trying to dumb this down a little bit for me, and folks maybe aren't that familiar with the story. But can you maybe break down, like, what's going well with the business here in the near term, and how do these new design wins layer in? Is the improved momentum in the quarter, for example, that due to your core business or our new design wins contributing to it, Can you just kind of give us a time view of what's going on here? It would be really helpful. Thank you.

Liron Eisenman | President and CEO:

Absolutely. So thank you, first of all, and great question. So I think as we explain in the past, design meetings usually take time until they materialize. So what we're seeing right now is not a design meeting to be announced this quarter and maybe not even a design meeting to be announced I don't know, two or three quarters, but we take time until things materialize and then we see full ramp up. And so some of the additive revenue that we're seeing right now is actually coming from design that we've done maybe even in 24 or 25, early 25, and it's building up. It's more and more momentum, more customers actually ramping up fully and some of them even better than what we anticipated. And this is what's leading us to the situation that we're now seeing this very nice increase

Ryan Coons / Greg Weaver | Financial Analysts:

That's helpful, really helpful. And maybe, you know, in terms of the core business in the quarter, it sounds like there was some upside. Can you attribute that to different market verticals, maybe in both the print and the second quarter outlook, what's happening with the kind of current base of business that's driving the acceleration?

Liron Eisenman | President and CEO:

So it's maybe the core business. So everything, all the new stuff we're talking about, There's no significant revenue coming from that yet. So everything we're seeing, this is the core business. So we will see significant improvements or significant advances, I would say, with the new stuff, the three pillars that we talked about. This will be on top of everything that we're seeing right now. But as for the core itself, it's across everything. It's across our FPGA. We see strong momentum there. We see it also with our edge devices. We see it with our smart tech. It's across regions. It's just we see very strong momentum everywhere.

Ryan Coons / Greg Weaver | Financial Analysts:

Right. So there's not one particular customer driving that. All right. That's helpful. And maybe shifting to more of a forward-looking view, you know, on both the encryption side as well as AI, can you maybe go into some explanation of what your competitive advantage is here that's allowed you to get some of these new wins around AI inference and encryption?

Liron Eisenman | President and CEO:

Yeah, so I'll start with encryption. So we've been building encryption products for years. This is not a new area for us. It's just that the post-quantum encryption is something relatively new to the world, not for us. Those algorithms are just coming out in the last 12, 18 months. And since we are already a leader in encryption, we know who are the customers. It's our existing customers. We know the type of additional customers we can onboard. We know how to sell to those guys. We know the technology they need. So it was kind of a straightforward next step for us, something we needed to invest in in order to be ready with the right product at the right time. So this is for encryption. For AI, the problem that we are solving is basically a networking, two problems we're solving. One problem is a networking problem, and this is what we've been doing for many, many years. So basically taking the same IP, the same R&D talent that we have, and just building the right products for that, or even purchasing existing products to solve those problems. And the other one is basically being the experience engine itself, what we call the . Instead of building an ASIC now for three years, the pace of improvement in running models is so quick. You see advantages and new stuff coming every week. So if you free yourself now to an ASIC, you're basically losing everything new that will come in the next three years. If you're doing it on an FPGA that you can update in the field, you can actually every week come with new things that will pop up and new strategies and new ways to do stuff. And we'll just accelerate what you did a week ago. Now we can do it 10%, 20%, 50% quicker. So this is why we think the hardware monopoly is another key element.

Ryan Coons / Greg Weaver | Financial Analysts:

That makes sense. So the faster innovation on FPGAs just gives you a big advantage. It makes sense. I'm back on the network comment you made around AI. I assume that's delivered in the form of NICs typically on the AI infrastructure networking.

Liron Eisenman | President and CEO:

It's possible, but I would say it's not necessarily simple NICs. There are smart NICs and some of them would be smart. New smart NICs would develop. Some of them are existing smart NICs, but I would say most of them, yes, in the form of smart NICs.

Ryan Coons / Greg Weaver | Financial Analysts:

Got it. Helpful. And then lastly, you touched on memory and inventory. This is obviously becoming a big concern industry-wide. It's been building, and we've been hearing lately about a lot of inventory builds and long-term purchase commitments from a number of networking peers of yours this quarter. Can you maybe give us a little more detail on your supply agreements and how you're thinking about the risks of memory supply and memory costs and how you pass those costs on to customers?

Liron Eisenman | President and CEO:

Yeah, I mean, it's, as you noted, inventory is going up. There's no other way to work around it. If you want to be ready to supply product, especially when we are a company that is growing dramatically, there's no other way. You have to secure the inventory. You have to work very, very closely with the DR vendors and with the storage vendors, and that's what we're doing. We're qualifying additional sources all the time. We're trying to balance between the different vendors because not all of them are able to deliver everything that we need. I mean, they're saying it publicly that they cannot deliver all the demand that their customers have, so we have to balance it between different vendors. So a lot of work, a lot of work here. And, yes, it's a challenge with the suppliers, a challenge with the customers. But we're navigating it very, very closely with the customers,

explaining the situation to them for months now. This is not something new. Everyone understands the situation. We're trying to solve the situation, sometimes even in creative ways, like changing specs of the product or exploring with the customer exactly what would make them happy and allow them to keep selling the product in the best way for them. And it's definitely something that takes effort from us. but we think it's going to be something that will allow us to build a relationship for many, many more years with those customers.

Ryan Coons / Greg Weaver | Financial Analysts:

Great. And you're able to pass those increased costs of memory on to your customers as part of your contracts with your customers? Most of it, yes. Most of it, okay. But you're not anticipating a major gross margin hit over these, in the coming quarters? No, absolutely not. Okay. Great. That's all the questions I have, guys.

Operator | Conference 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 while we pull for more questions. Next question is from Greg Weaver of Invicta Capital. Please go ahead.

Ryan Coons / Greg Weaver | Financial Analysts:

Hi, good day. Thanks for taking the question here. Just a couple quick ones on the inference side of things. What's your best guess in terms of revenue timing there? You mentioned the ramp that you were seeing in fiscal 26 isn't these new products?

Liron Eisenman | President and CEO:

Yeah, I think probably it's more 2027 rather than 2026 in terms of significant revenue for AI inference. But we may see some this year definitely making some good progress as I said before. Hopefully we can share more in future as we meet more milestones. But I'd say significant probably in 2027.

Ryan Coons / Greg Weaver | Financial Analysts:

Okay, thank you. And you stated you were creating a new inference specific product with a key customer. Now is that one of the two guys you've referenced or is this a new player? Yeah, it's one of those two guys. Gotcha. Okay. Thanks. Great quarter. Thank you very much.

Operator | Conference Operator:

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, 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 your interest in Silicon. We look forward to hosting you on our next call in three months.

Operator | Conference Operator:

Thank you. This concludes Silicon's first quarter 2026 results conference call. Thank you for your participation. You may go ahead and disconnect.