NASDAQ:SILC Q2 2026 Earnings Call Transcript

Generated on 8/9/2026

Operator | Conference Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the Silicon's second quarter 2026 results conference call. All participants were 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 ekglobalinvestorrelations.com at 1-212-378-8040 or view it in the news section of the company's website www.silicom-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:

Thank you, Operator. I would like to welcome all of you to Silicon's second quarter 2026 results conference call. Before we start, I would like to draw your attention to the following safe harbor statements. During this call, we may make forward-looking statements within the meaning of applicable securities laws. These statements may include, among other things, statements regarding the company's strategy, market opportunities, customer demands, product development initiatives, industry trends, expected deployments of the company's solutions, financial outlook, revenue expectations, margins, operating expenses, Profitability and Future Growth Opportunities. These statements involve risks and uncertainties that could cause actual results to differ materially 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 filings with this U.S. Securities and Exchange Commission, including its annual report on Form 20F. The company undertakes no obligation to update any forward-looking statements. With us on the line today are Mr. Liron Eizenman, President and CEO, and Mr. Eran Gilad, CFO. Liron will begin with an overview of the results, followed by Eran, who will provide the analysis of the financials. We will then turn the call over to the question and answer session. And with that, I'd now like to hand the call over to Liron. Liron, please go ahead.

Liron Eizenman | President and Chief Executive Officer:

Thank you, Kenny, and good day, everyone. I'm very happy to share a truly outstanding set of results for the second quarter of 2026. Results that came in significantly ahead of our expectations and that demonstrate the clear success of our strategic plan. Looking ahead and from our perspective in mid-2026, I have rarely been more excited about Silicon's strong momentum, upcoming potential, and the trajectory ahead. The second quarter was an exceptionally good one for Silicon, and it marked a clear acceleration of the growth inflection we talked about earlier this year. Revenues for the second quarter came in at $23.8 million, up a very strong 59% year-over-year and well ahead of the $20 to $21 million guidance range we shared with you last quarter. Our strategic plan of the core business is tracking well ahead and of our original expectations from when we first launched the plan. Our highly predicted predictable platform of recurring revenue built on years of design with momentum combined with the upside from our growth engines is now driving a key inflection point in our business. You can see it clearly in the increasing trajectory of our revenue growth. Two quarters ago in Q4 2025, we reported 17% year-over-year growth. Then we accelerated to 33% growth last quarter and now a further step up to 59% in the current quarter. Beyond that, we are maintaining and even further building on this momentum with the guidance for the next quarter, implying a further acceleration to 66% year-over-year growth at the upper end. This is a powerful, accelerating trend, and it reflects the compounding contribution of our multiple recent design wins as they ramp. Importantly, our visibility into the remainder of this year has improved remarkably over the past few months. As a result, We are raising our revenue guidance for the full year 2026 significantly to a range of 93 to 95 million dollars up from our previous guidance of 82 to 83 million. This higher guidance reflects the better than expected improvements in our core business and is further supported by the additional multi-million dollar revenues that we now expect from AI inference production orders in 2026. We have discussed many times the long-term growth and strength of our core business, our best track via our design win momentum. As you may remember, for 2026 as a whole, we targeted between seven and nine new design wins. I'm very pleased to report that we are just over halfway through the year and we've already secured seven new design wins. This means we are well on track to meet and to even exceed the upper end of the range. Those design wins achieved in recent months are the foundation for continued strong growth into next year and beyond. I want to spend a few moments discussing the design wins that we secured during the second quarter and more recently. During the quarter in April, we announced an FPGA SmartNIC design win with a European leader in advanced encryption and secure communication solutions. The customers selected our solution following a successful evaluation, testing the performance and reliability required for its advanced encryption solutions, including post-quantum cryptography. This was our third PQC design win as we continue to build post-quantum cryptography as an emerging future growth engine for silicon. We expect to scale toward an anticipated annual deployment of around $3 million. On top of that, we are in discussions regarding this customer's next-generation, higher-speed FPGA SmartNIC, which is planned to launch in 2028, as well as potential full-system solutions combining a server with an FPGA SmartNIC, opportunities that could each add meaningfully to our future revenues from this account. A few weeks later in May, we announced our first-ever white-label switching design. This was a win with a $5 billion per year potential with a Tier 1 Global Security Leader. Seeking to move away from vendor lock-in, the customer decided to replace its existing proprietary switches from an incumbent industry leader with Silicon's open white label solutions. The customer selected a full range of Silicon-designed white label switches as the networking infrastructure for its security platforms. First production orders are expected before the end of the year. And more recently, in July, An existing blue chip customer awarded us a new design win for a custom high-speed server adapter engineered to exact customer specifications for a specific use case. This win triples our expected business with this customer to nearly $10 million in 2027, a significant contribution to our growth in 2027 on top of the very strong growth we are already delivering in 2026. Those wins capture the essence of our strategy. First, each successful win opens the door to the next. with satisfied customers coming back to us for additional products and additional use cases. Second, they reflect the compounding value of the long-term trusted supply relationships we have cultivated over decades of operation with Bluechip customers. Together, they strengthen the visibility we have into continued growth in 2027 and beyond. Beyond the wins we already secured, our pipeline of potential opportunities remains very broad and deep. We expect this pipeline to continue converting into design wins, laying the groundwork for sustained, strong growth well beyond this year. Turning to our outlook for the third quarter, we expect revenues in the range of $25 to $26 million, representing accelerated 66% year-over-year growth at the upper end of the guidance. For the full year, as I mentioned earlier, we raised our revenue guidance to a range of $93 to $95 million, representing over 50% year-over-year growth. I want to emphasize a particularly important milestone. Driven by our strong execution and the significant inherent leverage in our business model, we now expect to return to quarterly non-GAAP profitability during the second half of this year, significantly earlier than we had originally anticipated. This is a meaningful inflection point for Silicom and a clear demonstration of the earnings power that our rapidly growing revenues are beginning to unlock. Let me now turn to the exciting progress we are making in the AI insurance market. We are very pleased with the tangible strong progress we achieved on the AI front in less than nine months. I want to highlight a few of our key AI related engagements. Recently, we secured a design win with a pioneering AI inference acceleration provider and received the first production order from this customer. This is an important milestone establishing a foundation for what we believe can become an exceptional revenue stream. Additionally, we successfully customized an AI NIC solution to meet the customer's specific needs delivered the first unit to the customer evaluation and are preparing for initial deliveries of this customized product per purchase order received from the customer, a leading AI inference ASIC and infrastructure vendor. In parallel, we are expanding our AI inference product portfolio and based on orders secured, we are now developing a completely new bespoke inference specific solution. We are witnessing AI spending shifts decisively from training to inference. and the rise of disaggregated inference architectures is positioning silicon as a key player bringing our networking know-how and building blocks to the architectures that powered those workloads and creating significant new opportunities for us along the way. We view our rapid progress and expanding footprint in AI inference as a potential game changer for silicon and successfully capitalizing on this generational shift will significantly enhance our long-term growth trajectory. This brings me to our balance sheet. which remains exceptionally strong and provides us with the flexibility to invest in our growth while maintaining a conservative financial profile. At the end of June, our working capital and marketable securities totaled $107 million, representing approximately $19 per share, including $55 million in cash, cash equivalent, and highly rated marketable securities with no debt. In summary, This was an outstanding quarter and it's an exciting time for Siilicom. Our core business is accelerating rapidly with 59% year-over-year growth in the second quarter and third quarter guidance pointing to accelerated 66% growth at the upper end. At the same time, we are making fast and exciting progress on our AI inference upside. Our design win engine is firing on all cylinders with the lower end of our full year target already reached in only half a year. On the strength of this momentum and improved visibility, we have raised our full-year revenue guidance to $93 to $95 million, and we now expect to return to quarterly non-GAAP profitability in the second half of this year. This quarter demonstrates again the exceptional performance of our core business, which is the foundation for everything else we're doing. It is the success of our strategic plan and the strength of our core that gives us the platform, the customer relationships, and the balance sheet strength to invest in AI inference and other additive growth engines, each of which is extension of our core expertise, capabilities, customer base, and the same IP roots. We could not be more excited about Silicon's strong and accelerating momentum, and we are moving with confidence and determination to fully capture the opportunities ahead. We 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 Eran for a detailed review of the quarter results. Eran, please go ahead.

Eran Gilad | Chief Financial Officer:

Thank you, Liron, and good day to everyone. I will review the financial results and business performance for the second quarter of 2026. Before beginning the financial overview, I would like to remind you that unless otherwise indicated, all financial results are non-GAAP. The full reconciliation of our results on a GAAP to non-GAAP basis is available in the press release issued earlier today. We are very happy with our revenues for the second quarter of 2026, which were $23.8 million, 59% above the $15 million reported in the second quarter of last year. The geographical revenue breakdown over the last 12 months was as follows. North America 79%, Europe and Israel 13%, Far East and rest of the world 8%. During the last 12 months, we had two 10% plus customers, which accounted for about 23% of our revenues. For about, not for above, for about 23% of our revenues. Gross profit for the second quarter of 2026 grew 51% to $7.2 million compared to a gross profit of $4.8 million in the second quarter of 2025. I note that our gross margin of 30.4% in the quarter is at the upper part of our short to mid-term expected gross margin range of 27% to 32%. Operating expenses in the second quarter of 2026 were $8.3 million compared with $7.2 million reported in the second quarter of 2025. I highlight that this is an increase of only 16% year-over-year compared with 59% revenue growth, a clear demonstration of the operating leverage in Eran inherent within our business model. Operating loss for the second quarter of 2026 was reduced to $1.1 million, a solid improvement from the operating loss of $2.4 million reported in the second quarter of 2025. This narrowing of the operating loss reflects the operating leverage inherent in our business, in our model, as our revenue returned to strong growth and points clearly to the improving profitability profile we expect to deliver as our growth accelerates. Net loss for the quarter was reduced to $0.9 million, a 54% improvement compared with the net loss of $2 million in the second quarter of 2025. We are very pleased with the pace at which we are closing the gap to profitability and we expect to return to quarterly non-gap profitability during the second half of this year, significantly earlier than we had originally anticipated. Loss per share in the quarter was 16 cents, a significant improvement compared with a loss per share of 35 cents as reported in the second quarter of last year. Now, turning to the balance sheet, as of June 30th, 2026, our working capital and marketable securities amounted to $107 million including $71 million in high quality inventory and $55 million in cash, cash equivalents and highly rated marketable 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 and we are leveraging our balance sheet strengths to take it, effectively mitigating the impact of the currently extended lead times for memory chips and positioning us well to continue capitalizing 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 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 speech recruitment, validate the answer before pressing the numbers. Your questions will be pulled in the order they are received. Please stand by, we'll respond to your questions. The first question is from Ryan Coons of Needham and Company. Please go ahead.

Ryan Coons | Analyst, Needham & Company:

Great, thanks for the question and just terrific results guys, really nice to see the business inflecting. Reflecting here on your accelerating revenue here in the first half of the year, are there any particular market verticals you'd point out, use cases that are particularly strong within your core business are resulting in the outperformance here in the first half or in the second quarter?

Liron Eizenman | President and Chief Executive Officer:

First of all, Ryan, thank you very much. I would say what we're seeing basically is the core business. Core business is booming and the core business is across the board, across all the product lines. If it's FPGA, if it's our standard adapters, if it's acceleration adapters, if it's our edge systems, all of that is really really growing in revenue and all the new stuff is actually not even reflected in the revenues yet even the switches we announced it will be start only later in the year and will actually ramp up significantly more next year same for the AI story and the PQC so I wouldn't say there's a specific market or domain but it's really really our core business that is driving all the growth understood thanks for that

Ryan Coons | Analyst, Needham & Company:

And with regards to, you know, you've been able to hold gross margins in here pretty well given the creep up in COGS, I'm sure. I assume with your open bomb strategy here with your customers that you've been able to raise price and has pricing contributed to some of the revenue outperformance? Pricing per unit?

Liron Eizenman | President and Chief Executive Officer:

It's a lot of hard work, so it's not easy to do that. We have a dedicated team that's working very, very hard on sourcing the components in the best prices possible, and it's relationships of years and years and years that we have with manufacturers and suppliers and silicon vendors that allows us to get access to those guys, speak with them, and try to get the best prices possible and also availability, which is not easy nowadays. And on top of that, yes, it's the work with the customers, keeping them updated all the time with the situation, making sure they get from us a view of how we see the industry, what are the challenges, where do we need them to help us, and sometimes we're working together to find good solutions. And eventually all of that is leading us to the result that you mentioned, which is exactly that. We are able to maintain the gross margin. And one more thing I would like to add on top of that is because of our very strong balance sheet, we are able, and Eran mentioned that before, to build significant inventories intentionally, not by mistake, that allows us in some cases to keep the prices down for a very long time by buying ahead. and all of that hard work together with our strong balance sheet and very dedicated customers that we're working with for years allows us to actually create this result that you mentioned.

Ryan Coons | Analyst, Needham & Company:

That's great. Helpful to hear that. With regards to memory cost, they've obviously been just skyrocketing. I've heard from other vendors that they are in the midst of, in some cases, redesigning products with lower memory. Is that something you're looking at in some cases or your customers are pretty pleased with your products and where they're at today?

Liron Eizenman | President and Chief Executive Officer:

We definitely do those kind of things. It depends on the customer. So as I said, everything is a discussion with the customer for us. So in some cases, it's not even a design change. Sometimes the design itself can have more memory or less memory or more storage or less storage. And we did have cases where we discussed with the customers And when memory and storage was, let's call it, cheap a year ago or 18 months ago, then someone would say, okay, give me a little bit more memory. It doesn't cost me too much. I don't know if I really need it, but put it in the product. And we definitely work with some customers, with all customers. Some of them wanted to make the changes. Some of them didn't want to make the changes. and definitely we had some changes in some products in order to support our customers better and get them to a price point that still allows them to sell the product. But yes, we do see generational shifts. It depends if a customer was maybe on a product that was using DDR4 and wanted to move forward to a DDR5. Not necessarily they immediately see the impact of that because DDR5 prices are also increasing, but maybe over time they will see it. So we are working with the customers very closely to see if they want to move to a new product or a different product that may give them a better price or maybe they just want to change the specs for the existing one. It's a lot of work together with the customers. And, you know, one of the things as I think about it is one of the things we are very proud of is that we are able to customize and do modifications very, very quick with customers. So that's one of the key things that we managed to move customers very quickly to new platforms when they wanted to do so. So it was almost for them kind of transparent. I mean, it's completely smooth.

Ryan Coons | Analyst, Needham & Company:

Really helpful. That's great. And with regards to your increased guidance on the balance of the year, you did mention, I think, that your inference customer and maybe your switch product is beginning to contribute. Can you give us kind of a rough magnitude of how much these brand-new design wins secured in 26 are contributing to your kind of end-year revenue?

Liron Eizenman | President and Chief Executive Officer:

Just to make sure, are you asking about AI inference in 2026?

Ryan Coons | Analyst, Needham & Company:

Yes, AI inference and any other major design wins that you recently secured.

Liron Eizenman | President and Chief Executive Officer:

So that's a little bit different. So for the AI inference, I would say the total number that you can put in your head or in your models for 2026 is in the range of $3 to $4 million. That's roughly the numbers that we expect for this year. Obviously, you know, 2027 numbers could be much, much higher. and for the other design wins, yes, some of them are ramping up quicker. Some of them take a little bit more time. It depends on the product. Some of them do contribute more revenue for this year, some of them less, but overall, I would say design wins we announced in 2026 will probably not be fully mature and fully in run rate in 2026, but 2027 or 2028 are more likely years to be full run rate.

Ryan Coons | Analyst, Needham & Company:

That's great. And then maybe just lastly on this inference design win, I know there's a lot of excitement from investors about that. Can you maybe summarize some of the intellectual property and some of the advantages you have that contribute to that sort of design win in the AI inference domain?

Liron Eizenman | President and Chief Executive Officer:

Yes. So, I mean, for competitive reasons, I would limit myself at some point. But still, I mean, we are still focusing on the know-how that Silicon has. and that we built over many, many years. And we now see a lot of, I would say two areas.

Kenny Green | Investor Relations, EK Global:

One is networking challenges.

Liron Eizenman | President and Chief Executive Officer:

and the other is compute challenges so on the networking challenges everything that we built over the many many years if it's around ftga or if it's around other asics that we have if it's around pcie switches or or anything else and understanding also what are the challenges in the architecture and having the right people to have the right discussions where the customers understand those pains all of that together is allowing us to understand the pain and come up with a solution and do it quickly because we have the building blocks to really provide customers very quickly a solution they can try out. And then even if we need to do some customization on top of that, we can do it very quickly. So that's one area. And the other area, as I mentioned, on the compute, which is mainly on the FPGA side, is actually doing inference on the FPGA, and we mentioned that in the past, is what we call the hardware lottery where actually if you're doing an ACQ or lockdown for many years and if you're doing it on FPGA you actually can update all the time and as models progress over time you can actually take all the new goodies that you have and all the industry that is doing smart things every day and put it into your FPGA and actually run it run models quicker and better than what you did yesterday so again it's all based on the same Fundamentals that we have for our core business but it's targeted in a different way and built specifically for AI inference.

Ryan Coons | Analyst, Needham & Company:

That's really great. That's all I've got. Thanks for the responses. Appreciate it. Thank you.

Operator | Conference Operator:

If there are any additional questions, please press star 1. If you wish to cancel the request, please press star 2. Please stand by when we pull for more questions.

Operator | Conference Operator:

The next question is from Greg Weaver of Invicta Capital.

Operator | Conference Operator:

Please go ahead.

Greg Weaver | Analyst, Invicta Capital:

Good day, gentlemen. Great quarter. Since the core business seems to be driving these results, can you maybe flesh out a little bit of kind of what's been a surprise, I guess, in terms of how things have gotten pulled in and what's caused the acceleration that you didn't anticipate, say, six or nine months ago?

Liron Eizenman | President and Chief Executive Officer:

As I'm trying to think about the answer to how to provide it, there's no single customer or a single industry that is creating it. I think it's more of all of the designers that we had and we won in the last 18 months all of them ramping up. And as always, some customers are more successful than they anticipated. Some are less successful than what they anticipated. But we see a very strong demand for all of those design wins that we accumulated over the last 18 months. Obviously, those that were accumulated this year takes a little bit more time. But those that we won maybe a year ago are really ramping up very, very nice. and another point that I can mention that we are usually conservative in the numbers that we provide, but it's not that we are completely blown out. We've seen some of the hints to this growth coming in, but now we definitely see it coming and also with our projection going forward, you can see it.

Greg Weaver | Analyst, Invicta Capital:

Okay, great. From a gross margin outlook perspective, obviously there's some moving parts here, but should with some of this new business coming on and say some of this inference ramping, do you foresee much of a change as a result?

Liron Eizenman | President and Chief Executive Officer:

I think we expect the same. We don't think it will change dramatically.

Greg Weaver | Analyst, Invicta Capital:

Okay. And just lastly, maybe if you could just address here for everybody on the call. about the shelf. There seemed to be a lot of consternation around that. Maybe just kind of talk to that and kind of what the thought process was there.

Liron Eizenman | President and Chief Executive Officer:

The filing is strictly standard corporate housekeeping. We like to maintain an active shelf to ensure we have maximum financial flexibility. Our focus right now is executing on the momentum as we're seeing it. If we experience higher than expected growth in our core business or see an opportunity to aggressively scale alongside for accelerating demand for AI-influenced solutions. This simply gives us the agility to support that working capital efficiency.

Greg Weaver | Analyst, Invicta Capital:

Okay. So, I mean, you think you could buy that much inventory or you'd need that much receivables working capital ramp that you'd absorb $50 million in cash you got on the balance sheet now in the next six months?

Liron Eizenman | President and Chief Executive Officer:

Yeah, we believe so.

Greg Weaver | Analyst, Invicta Capital:

You could ramp working capital that hard?

Liron Eizenman | President and Chief Executive Officer:

Sorry, I don't think I understood your question. Can you repeat?

Greg Weaver | Analyst, Invicta Capital:

Right. You have $50 million plus of cash and equivalents on the balance sheet currently, correct?

Operator | Conference Operator:

Correct.

Greg Weaver | Analyst, Invicta Capital:

Right. Who would you need to use that much cash for working capital needs in the next six months, do you foresee?

Liron Eizenman | President and Chief Executive Officer:

I think that if we need it, it would maybe be for AI if it really ramps up to the very, very high volumes.

Greg Weaver | Analyst, Invicta Capital:

Okay, well, that would be a fantastic high-level problem if that were true. I agree. Appreciate it. Great job. Thank you. Thank you.

Operator | Conference Operator:

There are no further questions at this time. Before I turn the call over to Mr. Eizenman to go ahead with the closing statement, I would like to remind participants that a replay of this call will be available tomorrow on Silicon's website, www.silicom-usa.com Mr. Eizenman, would you like to make a concluding statement?

Liron Eizenman | President and Chief Executive Officer:

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

Operator | Conference Operator:

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