NASDAQ:SILC Q3 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the Silicon Third 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. 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 I would like now to hand over the call to Mr. Kenny Green of EK Global Investor Relations. Mr. Green, would you like to begin, please?

Liron Eizenman | President and Chief Executive Officer:

Thank you, Operator.

Kenny Green | Investor Relations, EK Global Investor Relations:

I would like to welcome all of you to Telecom's third quarter 2026 results conference call. Before we start, I would like to draw your attention to the following State Harvest Statements. During this call, we may make four different statements within the meaning of 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 products and solutions, financial outlook, revenue expectations, margins, operating expenses, profitability, and future growth opportunities. These statements involve written These risks include among others those described in the company's press release issued earlier today and 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. With us on the line today are Mr. Liron Eizenman, President and CEO of 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 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 Eizenman | President and Chief Executive Officer:

Thank you, Kenny, and good day, everyone. I'm very happy to share another truly outstanding set of results for the third quarter of 2026. Results that suppressed our guidance and that clearly show that our strategic plan and our business are performing significantly better than we planned. Very importantly, this quarter we returned to profitability, well ahead of our plans. As we look toward the end of 2026 and into 2027, I'm excited about Tilikum's continued momentum, the clear visibility we have, and the fast opportunities before us. The third quarter was a truly exceptional one for Tilikum. showing a strong acceleration of the growth inflection that we have been talking about all year. Revenues for the third quarter came in at $26.7 million, up an outstanding 71% year-over-year and ahead of the $25 to $26 million guidance range. Equally important, thanks to strong execution and the inherent leverage in our business model, we have returned to profitability with a positive non-gap net income this quarter, well ahead of our initial expectations. Our revenue growth is fundamentally volume-driven, fueled by higher unit shipments across our core portfolio and accelerating customer deployment. You can see the acceleration in our business clearly in the trajectory of our revenue growth over the past few quarters. In Q4 2025, we reported 17% year-over-year growth, followed by 33% in

Q1 this year, 59% in Q2, and now 71% in Q3. And our guidance for the fall quarter points to continued very strong growth at a similar level of 66% year-over-year at the top of the range. Our business is now based on a highly predictable platform of recurring revenue based on years of designing momentum. As our recent design wins ramp up, they add to the base and that is what is driving this sharp inflection in our business. With this strong momentum, we are once again increasing our revenue guidance for the full year 2026 to a range of $96 to $98 million. This follows an increase in our 2026 guidance last quarter and is another indication of how we are performing well ahead of our expectations. As I often discuss, the long-term growth and strength of our core business are best tracked via our design wind momentum. The design wins we secure today drive our growth for years to come, which makes them one of the most important indicators of our future performance. I want to discuss why our design wins translate so powerfully into revenue growth. First, every new design win is added to our existing base of business. This base of active design wins continues to generate a stable, recurring stream of revenue, and each new win adds further revenues on top of it. Many of the design wins we have secured in recent years are now in their strong growth phase, ramping up from initial orders towards full-scale deployments. It is the combination of those two effects, new wins heading to the base and recent wins ramping up within it, that is driving the strong revenue growth you are seeing today, and that gives us great confidence in our continued growth ahead. As you may remember, at the beginning of the year, I announced that for 2026 as a whole, we were targeting between seven and nine new design weeks. I'm very pleased to report that we have secured eight new design weeks this year, already matching our total for the full year 2025. With two months of 2026 still to go, we've already exceeded the low end of our target range, and we are on track to meet or even exceed its upper end. I want to spend a few words discussing the two design wins that we secured during the third quarter. In July, an existing BlueJeep customer awarded us a new design win for a custom high-speed server adapter, which we engineered to its exact specification for a distinct use case within its infrastructure. Having already integrated one of our official stereo adapters, as well as an APK SmartNIC, this customer came back to us for a fully custom product. This wing is expected to grow our total business with this customer from approximately $3 million in 2026 to nearly $10 million next year. More recently, in September, we secured a design wing with a new customer, a tier-one cloud-based cybersecurity giant for a silicon-hedged networking device with an integrated 5G wireless connectivity. After evaluating our solution for many months, the customer selected silicon specifically for the strength of our integrated Teriraa connectivity, which proved to be a key differentiator in a highly competitive process. The customer has already placed an initial order, which ramp up expected to begin before the end of this year. At Full Ramp-Up, we expect revenues from this design ring to exceed $5 million annually for this device alone. In parallel, we are evaluating additional higher-end edge devices with this customer, including a GPU-integrated edge device designed for HAI use cases. Those rings are a good example of how our quality works. We continue to grow our business by securing design rings with both new and existing customers, and each successful design ring opens the door for further wins. Often, we satisfy customers coming back to us for additional products and additional use cases. Those kinds of wins reflect the long-term trusted supplier relationships we have cultivated over many years of operations with leading blue-chip customers. Importantly, together we expect them to make a significant contribution All of this very significant growth we are already delivering in 2026. Beyond the wind already secured, our pipeline of opportunities remains very broad and deep, spanning our entire product portfolio, ad systems, smart mix and FPGA-based solutions, as well as AI inference, white-box switches and post-quantum cryptography, across both new and existing customers. We expect this pipeline to continue converting into design wind, laying the ground for sustained strong growth well beyond this year. Turning to our output for the fourth quarter. Based on the predictable recurring revenues from our DesignWin platform, we expect revenues in the range of $27 to $28 million, representing 66% year-over-year growth at the upper end of the guidance. For the full year, we have raised our revenue guidance to a range of $96 to $98 million, representing 57% I also want to emphasize the particularly important milestone. Last quarter, we told you that we expected to return to quarter in non-GAAP profitability during the second half of the year. We have already achieved this in the third quarter, driven by our strong execution and the significant inherent leverage in our business model, and with the strong growth we expect in the fourth quarter, we expect to build significantly on this profitability in the coming quarter. This is an important turning point for silicon, and it shows the earnings power that our growing revenues are starting to unlock. Let me now turn to the AI

inference market, where we continue to see tangible and significant potential. The AI networking and interconnect market is highly dynamic, requiring rapid architectural changes. This plays directly to our core strength of quickly tethering sophisticated solutions. As a direct result of DOSCAD's pulling dynamics, our pipeline is highly active. We are in final discussions with new customers about the major evolving use case, and we expect to reach an agreement very soon. Conversely, another prospect recently suspended a project to change their strategic direction. We have a strong track record of thriving in exactly this kind of fluid environment. To secure their supply chain, inference players are increasingly adopting dual-source strategies. Because those customers anticipate using very high product quantities in the range of tens of thousands annually, they believe they will have sufficient volume to support both sources. This shift represents a strong long-term net positive for silicon, opening up far more opportunities than risks. While one of our current customers now has a dual source option, this broader trend is already driving new pipeline growth, including at least one new prospect currently evaluating us for their dual source plans. We are uniquely equipped to capture those expanding opportunities. Our ability to deliver both FPGA-based and cost-based solutions ensures that we can provide the most cost-effective, high-performance architectures to ASIC infant companies as they scale. Ultimately, the behavior of decision-making and extended timeframes in the AI infant space close the narrow zone of our traditional market. We are fully prepared to navigate those extended cycles having executed exactly this playbook across similar markets for more than 30 years. This brings me to our continued balance sheet strength, which provides us with the flexibility to invest in our growth while maintaining a conservative financial profile. At the end of September, our working capital and marketable securities totaled $107 million, representing approximately $18 per share, of which $45 billion in cash, cash equivalent, and highly rated marketable securities. In summary, this was another excellent quarter. It reinforces our confidence in the strength of our target market, the effectiveness of our execution, and the soundness of our strategic plan, and it is a very exciting path for Silicon. Our business delivered 71% year-over-year revenue growth in the third quarter, ahead of our guidance, and we have returned to non-gas profitability, well ahead of our original timeline. Our design engine is firing long cylinders, with eight design wins over the security this year, and we have once again raised our full-year revenue guidance, Thank you very much. Our growth momentum continues to build. With accelerating revenues and our return to profitability, we expect to close 2026 on a high note, carrying this exceptional momentum into a highly promising 2027. We look forward to delivering continuous strong growth and returns to our shareholders in the quarters ahead and over the long term. With that, I will now hand the call over to Eran for a detailed review of the quarter results. Eran, please go ahead.

Eran Gilad | Chief Financial Officer:

Thank you, Liron. A good day to everyone. I will review the financial results of this business performance for the third 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 third quarter of 2026, which were $26.7 million, 71% above the $15.6 million reported in the third quarter of last year. The geographical revenue breakdown over the last 12 months was as follows. North America, 78%. Europe and Israel, 11%. Faris, and the rest of the world, 11%. During the last 12 months, we had one 10% plus customer, which accounted for about 13% of our revenue. Gross profit for the third quarter of 2026 grew 63% to $8.1 million, compared to a gross profit of $5 million in the third quarter of 2025. Our gross margin of 30.3% in the quarter is comfortably within our expected short to mid-term gross margin range of 27 to 32%. Operating expenses in the third quarter of 2026 were $8.1 million, compared with $7.4 million reported in the third quarter of 2025. I highlight that this is an increase of only 9% year-over-year compared with 71% revenue growth, a clear demonstration of the operating leverage inherent within our business model. Operating income for the third quarter of 2026 Turn positive, a just about break even, at $20,000, a significant improvement from the operating loss of $2.4 million reported in the third quarter of 2025. Net income for the quarter was $0.3 million, compared with a net loss of $2.1 million in the third quarter of 2025. We are delighted to have returned The quarter may not get more stability in the third quarter, well ahead of

our initial expectations. Earnings per share in the quarter were 4 cents, compared with a loss per share of 36 cents in the third quarter of last year. Now, turning to the balance sheet, as Yaron mentioned, as of September 30th, 2026, Our working capital and marketable securities amounted to $107 million, including $73 million in high-quality inventory and $45 million in cash, cash equivalents, and highly rated marketable securities. We know that. That ends my summary. I would like to hand back to the operator for a question and answer session.

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 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, the first question is from Ryan Kunz of Needham and Company. Please go ahead.

Ryan Kunz | Analyst, Needham & Company:

Good morning from the West Coast and great quarter guys, really great quarter. A few questions if I could please. Just can you start with reminding us what the revenue ramp, I know there's different scales of different design wins obviously, but can you remind us of the timing of revenue ramps typically from the time that you announce a win? Are we talking, you know, two quarters to start small and maybe get some material in three, four quarters? If you could just comment on that just to reset the expectations here on these design wins, that would be really helpful.

Liron Eizenman | President and Chief Executive Officer:

Really helpful, thank you. So this really exemplary growth you're delivering here in the second half,

Ryan Kunz | Analyst, Needham & Company:

These are design wins. I assume then the primarily contributors here are design wins you secured in the second half of 25. Is that a good way to think about it?

Liron Eizenman | President and Chief Executive Officer:

Or before, yes. But it's definitely not the design wins we secured in the first half of this year. Those will be mainly contributing for the years to come. So everything we're seeing right now already in the growth in the revenue numbers.

Ryan Kunz | Analyst, Needham & Company:

We continue to be very excited about this opportunity, obviously, and we're seeing

Liron Eizenman | President and Chief Executive Officer:

Good momentum with this customer, and I definitely hope we will have some updates for you soon. Right now, it's moving forward good. As we published, we got the first production order, we're working on delivering it, and also working on trying to secure additional orders.

Ryan Kunz | Analyst, Needham & Company:

Got it. Super. And if you could clarify, your microphone's a little fuzzy, it's a little bit hard to hear you on this call, to be honest. But you had this comment about dual source. This is from an existing design win you have that's going to dual source, or can you clarify your comments there?

Liron Eizenman | President and Chief Executive Officer:

Absolutely. So the conference in general is not about a specific design win or a specific customer. It's about the industry. So as those AI-influenced players are advancing and becoming more mature, they understand that they need a dual source strategy. and this is something we're very familiar in the market for many many years. So we're starting to see more and more of that. That's obviously two ends. One side is good because it opens up more customers that today are maybe not working with us, maybe working with someone else and suddenly they come to us and we have such a case actually right now where we are entering I would say very less discussions with the customer about becoming their dual source. And on the other side, yes, it may also be a situation where we are working with someone And that's how one will have a dual source strategy, but the good news is the quantities are very, very high. That's what we hear from all those guys. It's in the tens of thousands per year. So even with a dual source strategy, the audiences we can get, even for one customer, could be very big.

Ryan Kunz | Analyst, Needham & Company:

Sure. That's really helpful. And these designs, this is a, obviously this is a different sourcing strategy, different manufacturers. But this is also from a different design vendor making a different product that serves the same requirements as yours? Or is it your design being manufactured by different manufacturers?

Liron Eizenman | President and Chief Executive Officer:

It would not be our design manufactured by someone else. It would be a competitive solution from someone else. But if I think about it in the whole, I think for us, it's, I mean, let's just say we're taking more opportunity for us. to sum it up.

Ryan Kunz | Analyst, Needham & Company:

Got it. That's really helpful. And any help for us on how we should think about the growth opportunity here in 27? I mean, do you think this momentum you're seeing in the second half, can we safely say you expect that

Liron Eizenman | President and Chief Executive Officer:

I'm personally very excited about 2017. There's no numbers I can share right now, but in general we believe we will continue to grow and we believe we have a good momentum both on design that should wrap up and both on new stuff that we're still doing this year and planning to see the impact of that next year. So very, very excited.

Ryan Kunz | Analyst, Needham & Company:

We'll continue seeing the growth, I believe, but the exact numbers is too early for me to provide. Fair. Maybe one last one, if I could squeeze it in. If you think about your, we'll call it, legacy business from DesignWinds before 2024, for example, DesignWinds 23 and before, do you have any idea of the stabilization of that business? I mean, is it in modest decline? Is it essentially flat now? Can you help us? With your long established business, with the trajectory of that, even here in the second half of 26, what is the mix of kind of old versus new design wind in terms of growth?

Liron Eizenman | President and Chief Executive Officer:

So usually when we have a design wind, usually it will stay at least for at least five years. Sometimes even more than that. So even design wins that we achieved in 24, 23, very likely they will stay with us this year, next year, maybe also in 28. But a lot of times it's a design win after design win. So as I mentioned before, it's a design win when another customer gets us a design win with the same customer later on. So if they bought from us, for example, you mentioned Legacy, I wouldn't call it Legacy, it would be a core business, for example, one of our network adapters, and now they are going to do a refresh next year, they would probably come to us and they would say, okay, we had a low-speed grade adapter, That is really, really helpful. I appreciate all your thoughts there and congrats on the great quarter. Thank you.

Operator | Conference Call Operator:

There are no further questions at this time. Before I ask Mr. Eizenman 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. Mr. Eizenman, would you like to make your concluding statement?

Liron Eizenman | 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 Call Operator:

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