NASDAQ:SVCO Q4 2025 Earnings Call Transcript

Generated on 6/10/2026

Operator | Conference Operator:

Good afternoon, and welcome to the Sovacos, a fourth quarter fiscal year 2025 conference call. All participants are in a listen-only mode. After the speaker's presentation, there will be a question and answer session. Please note this event is being recorded. I would now like to turn the conference over to Chris Segarelli, Chief Financial Officer for Sovaco. Please proceed.

Chris Segarelli | Chief Financial Officer:

Thank you. Joining me on the call today is Wally Rines, Silvaco's CEO and Director. As a reminder, a press release highlighting the company's results along with supplemental financial results are available on our IR site at investors.silvaco.com. An archived replay of the call will be available on this website for a limited time after the call. Please note that during this call, management will be making remarks regarding future events and the future financial performance of the company. These remarks constitute forward-looking statements for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. It is important to also note that the company undertakes no obligation to update such statements except as required by law. The company cautions you to consider risk factors that could cause actual results to differ materially from those in the forward-looking statements contained in today's press release and on this conference call. The risk factors section in SILVACO's annual report on Form 10-K for the year ended 12-31-2024 and the most recent Form 10-Q filing with the Securities and Exchange Commission provide descriptions of these risks. With that, I'd like to turn the call over to our CEO, Wally Rhines. Wally?

Wally Rhines | Chief Executive Officer and Director:

Thanks, Chris. Good afternoon, and thank you all for joining the call. I'm pleased with our performance in the fourth quarter of 2025. We're executing our turnaround plan faster than anticipated, which can be seen clearly in the numbers. For Q4, we delivered bookings at the high end of the guided range, revenue and gross margin above the high end, and non-GAAP operating expenses at the low end, all resulting in a much lower operating loss than expected in the quarter. Our Q1 guide is strong as well. I'm proud of the team for delivering such strong results and positioning us for a faster than expected recovery in the business. Chris will walk you through the details later in the call. But now, I'll turn to discussing our progress toward the return of the business to a strong, predictable growth. I'd like to start with big news on the AI front. We reached an important milestone in Q4 ahead of our prior expectations. During the quarter, a second customer adopted our AI-driven solution for manufacturing process development known as FTCO. This win was a customer in Asia and is outside of our memory segment. We believe that this win confirms the clear customer value of our AI solution beyond memory and points to significant opportunities ahead. This AI bundle delivered above average bookings and revenue reflecting the high value placed on our unique set of AI capabilities. It's very encouraging to see adoption of our AI solutions faster than expected. In our total TCAD business in Q4, we saw a 70% sequential increase in bookings to $9.2 million and a 34% sequential increase in revenue to $8.7 million, driven by adoption of FTCO by a new customer. We continue to enhance this AI-driven process development platform with new and upgraded features that put more AI features in front of more design and manufacturing engineers to slash their development signs, save money, and enable first-time-rate silicon. We believe that the transition to more AI-enabled sales will be a long-term tailwind to the business. After a soft

2025, We also expect the pace of TCAD contract renewals to accelerate in 2026. These trends support our expectation that the TCAD business will grow sequentially in Q1 and will grow for the full year 2026 as well. In Q4, we also saw a meaningful inflection in the semiconductor IP business. We deliver record IP revenue and bookings of over $5 million in the quarter, driven by our first full quarter of Mixel revenue post-acquisition. Mixel's industry-leading MIFI IP continues to have a strong following globally, led by its reputation for unparalleled quality. We're building on that reputation by leveraging the entirety of the Siwako sales force to drive more growth in Mixel products. We're also broadening our offerings from custom solutions to production ready or PRO products. Our PRO portfolio is silicon proven in nine different foundries and 12 different manufacturing nodes. Mixcel IP has proven to enable up to 35% reduction in dye area and up to 50% reduction in leakage power. The MIPI PHY market It's over $300 million per year, and we still have a relatively modest share. We're positioned for steady growth in this area as we ramp MIPI Pro products, which serve the largest part of the market. Outside of Mixel, Andy Wright, head of Sovaco's IP business, has done a great job of increasing our internal capacity for foundational IP elements, such as memory compilers and standard cells. As we look to the latter part of 2026 and into 2027, we see considerable opportunity to grow these areas given our increase in efficiency. Our IP business continues to be positioned as our fastest grower in 2026. It is already almost 30% of our business as we exit 2025. We expect to continue to deliver steady growth in IP sales across interface and foundational IP elements as well as our acceleration in MIPI. This is a story to watch in 2026. Now turning to EDA, we saw a significant decline in our Q4 bookings and revenue after all time records in Q3. Bookings for Q4 came in at just under $4 million with revenue of 4.4 million. Here, we continue to focus on shifting priority to a handful of core products that we believe can deliver significant growth. One of these focus areas is Javaro, which continues to see relatively strong customer interest and has a strong pipeline for new business potential. Javaro has been adopted by leading companies as it accelerates post-layout SPICE simulations by up to 10x with sign-off accuracy. Javaro and the other core EDA products are well positioned for growth as we focus development, sales, and field application resources on core growth drivers. We expect stability in EDA in the short term and then a return to growth as these new priorities deliver results later in the year. Underlying this improved business performance are the series of restructuring steps that we put in place almost from day one. We drove targeted reductions in support groups as well as in product areas to enable the teams to focus on core growth drivers. We also challenged product and support teams to limit direct customer support work done by business unit R&D staff so that they could focus more on product development. This change alone has had the benefit of simultaneously improving our gross margins while increasing R&D capacity. We also put in place leading AI tools to accelerate our software development. We're continuing to drive other process improvements to continue improving our ability to plan, drive, and execute the business. These changes have been widely embraced across the company, and I look forward to seeing how they continue to accelerate our execution and to delight our customers. And while I'm proud of the team for the significant progress we made in quarter, I want to reiterate that we still have a lot of work in front of us. In the coming quarters, we expect to build on momentum from the fourth quarter. For example, we'll continue to deliver significant growth in our IT business. We can already see evidence of this improvement in a strengthening pipeline, which we expect to convert into strong revenue in 2026. We also see good growth in TCAD, as renewals grow and interest continues to increase around our AI solutions. For EDA, we'll see benefit from our restructuring activities later in the year as we focus on key growth segments. And overall, we expect our AI-driven machine learning capability to change the way semiconductor manufacturing process development is done and to add broad capabilities for fab engineers to improve yields, throughput, and failure analysis. As I said last quarter, Chris and I are firmly committed to an aggressive acceleration of Sivaka's business. We're off to a good start, but the best is yet to come. I'd now like to turn the call over to Chris, who will discuss our financial results and our outlook in more detail. Chris?

Chris Segarelli | Chief Financial Officer:

Thanks, Wally. Good afternoon, everyone. In Q4, we delivered $18.3 million in bookings near the high end of our guided range. Strength in the quarter came from IP products and our TCAD solutions. IP delivered more bookings in Q4 than it did in the entire year of 2024. IP bookings grew almost five times sequentially as Mixel started to meaningfully contribute to the business. TCAD bookings were also particularly strong, up 70% to 9.2 million with the close of another AI-driven process development win with a large OEM in Asia. Strong bookings helped propel revenue to $18.3 million in the quarter, above the high end of the guided range. TCAD and IP revenue grew strongly in the quarter, up 34% and almost 3x, respectively. IP strength was driven by Mixel, while TCAD strength was driven by our latest FTCO win. EDA, on the other hand, saw a significant sequential decline after setting records in Q3. 65% of revenue in the quarter came from license revenue and the remaining 35% from maintenance and service. From a geographic perspective, we saw the most growth in Q4 from the APEC region, which spiked to 57% of total revenue in the quarter. APEC strength was driven by FTCO. Looking down the P&L, gap gross margin in Q4 was 83.3% and non-gap gross margin was 85.6%. Gross margin increased roughly five full points sequentially and came in well ahead of guidance. As part of our restructuring activities, Wally and I set clear expectations for the field application teams to prioritize customer support, while R&D teams focused primarily on product development. We also drove some reductions in these areas as well. Taken together, these changes resulted in much faster than expected improvement in our gross margin. We believe this trend is sustainable. Gap operating expenses were down almost 8% sequentially to $22 million. Non-gap operating expenses were down 5% sequentially to $16.7 million, below the midpoint of the guided range. This result is more meaningful than it may appear. We think about total spending as the combination of cost of sales and operating expenses. In our business, the majority of cost of sales is the cost of our colleagues supporting customers. From this perspective, our total non-GAAP spending, which combines both cost of sales and operating expenses, trended from $21.3 million in Q3 to $19.3 million in Q4, a sequential decrease of just over 9%. Our guidance indicates that this trend continues in Q1 with a similar level of sequential reduction in total spending. We expect further reductions in Q2. These reductions are ahead of our expectations and reinforce our commitment to driving the business to profitability. We indicated on our last call that we were committed to reducing annualized non-GAAP operating expenses by at least $15 million annually. We now believe that we will deliver $20 million in gross annualized non-GAAP spending reductions. Our guiding principle remains the same. We intend to turn the business profitable at flat revenue, Achieving this goal will create a strong foundation for future profitable growth. GAAP operating loss improved quarter over quarter to a $6.8 million loss. Non-GAAP operating loss was just over $1 million, well ahead of Q3 and ahead of expectations. GAAP net loss in the quarter was $7.2 million, and GAAP EPS was a $0.24 loss. Non-GAAP net loss in the quarter was $0.8 million, and non-GAAP EPS was a $0.03 loss. Next, turning to the balance sheet and cash flow. Cash and marketable securities at quarter end was $18.3 million, including $8.3 million of restricted cash due to the Nangate settlement. Given that we have executed cost reductions ahead of prior expectations and given strength in bookings and revenue, our underlying burn rate, net of one-time items, has declined significantly in Q1. We expect that the $10 million of unrestricted cash on the balance sheet as of year end will support operations as we drive to positive operating cash flow later in the year. We expect to approach operating cash flow breakeven in Q2 and to see positive operating cash flow in Q3. Now, turning to guidance. For Q1 2026, we expect bookings of between $15 and $19 million, revenue of between $15 and $19 million, non-GAAP gross margin of around 85%, and non-GAAP operating expenses of $14.5 to $16.5 million. In closing, we believe that with improved financial discipline and a focus on key growth opportunities, we will set the stage for profitable growth going forward. We would also note that the non-GAAP operating profitability is within the high end of the guided range for Q1. which is ahead of our prior expectations. And with that, operator, we will now take questions.

Operator | Conference Operator:

Certainly. As a reminder, to ask a question, you will need to press star 1-1 on your telephone and wait for your name to be announced. To withdraw your question, please press star 1-1 again. Please stand by while we compile our Q&A roster. Our first question will be coming from the line of Craig Ellis of B-Riley Securities. Your line is open, Craig.

Craig Ellis | Analyst, B. Riley Securities:

Yes, thanks for taking the question, and congratulations on the strong execution team. Wally, I wanted to start one that's a fairly high-level question for you. When you came in, you outlined a number of growth priorities, and it seems like we're off on the right foot as we close out 4Q and 1Q. Can you just go into more detail on where you're happy with the business's execution, and on the two or three things you really want to see the business execute on as we go through the first half of this year.

Wally Rhines | Chief Executive Officer and Director:

Sure, Craig. I'd be glad to. And it's true. I've now been here for over five months, and I now have a much better perspective on where the opportunities lie, where the weaknesses are, and where we need to move ahead. I think the first thing of note, of course, was that we needed more financial flexibility and so the cost reduction program has been executed well. It's always difficult, but I think morale has improved greatly, and now after the majority of it is over, people are back to work and thinking about new opportunities. The survey of all of the product lines became more detailed as I, this last quarter, met with customers, traveled the world, Asia, Europe. I spent time with our Mixcel employees in Egypt. I spent time in India with new customers. I've come to the conclusion that we have an incredible long-term opportunity driven by artificial intelligence and the whole change that's underway in how process development is done and how wafer fab engineers and product engineers optimize their processes, optimize their manufacturing, find defects, look for yield problems. And that, I think, builds well on the core manufacturing capability of Silvaco and provides the long-term growth engine. The thing that I was particularly pleased by, though, was in the short term, such strength in IP. driven, as Chris indicated, by the strength of the Mixel business, but also the rest of the IP product line, as Andy Wright has brought in new disciplines, made it more efficient, greatly increased our capacity, and the great marriage that came by joining a well-seasoned, significant sales force with a negligible sales force at Mixel, has produced a very promising outlook for very rapid growth for the IP business in the year ahead. EDA, while it is down, has selected good opportunities. Jabarro is a category killer and is, in fact, a sign-off tool at least one major company and then at a slew of other very leading semiconductor companies, and it's one of a handful of EDA products that can provide not only the strength of contract renewals going forward, but some potential for growth. But it's going to be a stabilization issue in the short term and then growth in the longer term. So summarizing, great long-term opportunity in the evolution of TCAD to the next generation of AI-driven process development, great-looking short-term IP business, driven by Mixcel, but complemented by the efficiencies in the existing business, and a good stable base of key targeted products in EDA, which although they won't grow in the short term, they provide a strong renewal base of revenue, and it makes me very glad that I joined Zolaco.

Craig Ellis | Analyst, B. Riley Securities:

That's really helpful, Wally. Thank you. Chris, I'll direct a follow-up to you. in part a clarification and then in part a question that the clarification for the NICE Asia Foundry FTCO deal. Did that fully rep rack in the first quarter or is that a multi-quarter rep rack and can you provide any color there? And then the second part of the question, love the incremental expense the team is able to achieve going from 15 million to 20 million. Can you give us some color on where you're realizing that incremental $5 million in savings? Thank you.

Chris Segarelli | Chief Financial Officer:

Yep. Craig, happy to do it. So from a REVREC perspective, the FTCO win, it was not all recognized in Q4. So a significant amount of it was recognized. The rest of it will run over the term of the contract. And as you saw, good momentum in FTCO leads to good numbers. in TCAD, good, strong growth sequentially. And as Wally was indicating, we're seeing, you know, incremental interest there, a good pipeline on FTCO, you know, a lot to be excited about as we look at new FTCO opportunities, you know, through this year and beyond. In terms of cost savings, I think, you know, we laid it out last call that obviously we were, you know, incrementally more focused on support organizations, for example. for reductions, but we also, you know, did look across the organization to streamline, reset some org structures, for example, and extract some value. I think for me, Craig, and I pointed it out in the prepared remarks, but I want to emphasize it here. You know, some of our spending does go through cost of sales. So one of the reasons why you saw gross margin perform so well in the quarter and why we think it's sustainable at these levels is is that we were able to have the product teams really focus on product development and have most of the customer support work being done by the field application engineers. And that just leads to a much more cost-effective view on cost of sales. And it also increases capacity on the R&D side where the team can focus more on engineering those new, exciting AI-driven products that Wally was alluding to. So I think it was broad-based, a little bit more on the support side. We have been streamlining. We do think some more cost does you know, come out into Q2. So, you know, I can already confidently say there will be a sequential decline again in Q2. And that's where profitability will, you know, be within our grasp after delivering some pretty good numbers here in Q4. And I think a pretty good guide for Q1.

Craig Ellis | Analyst, B. Riley Securities:

Good numbers indeed. Thanks, guys.

Chris Segarelli | Chief Financial Officer:

Thanks, Craig.

Operator | Conference Operator:

And our next question will be coming from the line of Kevin Gerrigan of Jefferies. Kevin, your line is open.

Kevin Gerrigan | Analyst, Jefferies:

Yeah, hey, Wally and Chris, let me echo my congrats on the results and all the progress. Hey, Wally, previously you mentioned the adoption process of FTCO was always kind of a gating factor. You know, your second FTCO customer was faster than you expected. So are you able to kind of speed up the adoption process? Or what was the driver of the faster than expected adoption? And can that translate to other engagements?

Wally Rhines | Chief Executive Officer and Director:

I think our efficiency is, at closing and ramping FTCO customers is going to continuously increase. The initial engagements were very upfront service oriented, a lot of bringing the customer online. This particular one was based both on the vision they could see ahead as well as some initial purchases to get things going. And I think in the future, The message is becoming better honed. Our field sales organization is able to communicate the value. And the pipeline is increasing for the number of customers. So I think I would expect that the time it takes to go from initial engagement to real revenue is going to decrease as we move forward and as people see what the benefits are for applying AI to the next generation of processes.

Kevin Gerrigan | Analyst, Jefferies:

Okay, perfect. And then, Chris, can you just kind of give us any color on how we should think about bookings by segment in Q1? Should we expect it to be more kind of TCAD-driven and SIP versus EDA?

Chris Segarelli | Chief Financial Officer:

Yeah, that's a good guess, and I would agree with that. We're seeing continued strength in TCAD, sequentially in Q1, so that's a very strong story. You know, IP, after delivering really good numbers in Q4, it's in the same range, maybe down a slight tick. And EDA feels flattish sequentially. So yes, a good TCAD uplift in Q1.

Kevin Gerrigan | Analyst, Jefferies:

Okay, perfect. I appreciate the color and congrats again on all the results.

Operator | Conference Operator:

Thanks. And our next question would be coming from the line of Robert Mertens of TD Cohen. Your line is open, Robert.

Robert Mertens | Analyst, TD Cowen:

Hi, this is Robert on for Chris. Thanks for taking my questions. Maybe just to go back to the FTCO product, just how you're thinking about the new customers ramp through the year and your older customer, if you expect any acceleration of orders in calendar year 26 or more of the upside could be a 27 story.

Wally Rhines | Chief Executive Officer and Director:

Yeah. Well, if you want me to take that, I guess you were talking to Chris first, but the way the pipeline is shaping up, we expect it to be a 2026 story. We have enough additional customers in the queue, and I'd point out that there are two elements to this TCAD growth sector. One is the people who are traditional TCAD users, and We have a strong renewal contract, a strong queue of contract renewals that provide growth in the base business. The SDCO is really a different thing. It's how you shift and develop processes in a totally different way. It doesn't really head-on compete with our traditional PCAD business. It's really a different business. And as more and more people are realizing that, then it's not something where we have much direct competition with customers. It's just the case of selling the value of moving to a new paradigm for process development. And we're just being helped along a great deal by all the NVIDIA publicity and the people talking about tools, Anthropic, OpenAI, and so on, where everyone's looking and saying, how is my world going to change? And the people who've done or used TCADs to develop and optimize their processes in the past are asking that question, and so we just need to be there with an answer that they can act upon quickly, and it seems to be going very well.

Robert Mertens | Analyst, TD Cowen:

Great. Got it. Thank you.

Operator | Conference Operator:

And our next question will be coming from the line of Christian Schwab of Cray-Halem Capital Group. Your line is open, Christian.

Christian Schwab | Analyst, Craig-Hallum Capital Group:

Great, thanks. Solid results. I just have one quick question. Can you give us an idea of what you're anticipating, either percentage-wise or dollar-wise, in growth from the MixLX acquisition in 25 versus 26?

Craig Ellis | Analyst, B. Riley Securities:

I can take that one.

Chris Segarelli | Chief Financial Officer:

Feel free to add more color if you'd like. I mean, as you saw sequentially from Q3 to Q4, From a booking standpoint, IP grew $4 million sequentially. A good piece of that was from Mixel. And if you just annualize that quarterly performance, you can get a sense of what that business is doing, call it approaching double digits. And then, as Wally said, there's the PRO or PRO products, and there's increased efficiency within the team and leveraging of the sales force. So we think growth comes from there, but that gives you a sense of, you know, the baseline of where they're coming from and how we do see that growing sequentially into this year. And, you know, more momentum probably in the second half is what I'd say as we lay the groundwork for really supporting those pro products that we just recently announced.

Christian Schwab | Analyst, Craig-Hallum Capital Group:

Great.

Wally Rhines | Chief Executive Officer and Director:

Go ahead, Wally. Sorry. Wally, and thanks for that quote. Between that and strong TCAD year, We really expect to deliver double-digit revenue growth in the current calendar year. Great.

Christian Schwab | Analyst, Craig-Hallum Capital Group:

That was going to be my next question. Thanks for answering it. No other questions. Thank you.

Operator | Conference Operator:

Okay. As a reminder, to ask a question, please press star 1-1 on your touchtone telephone and wait for your name to be announced. Again, if you'd like to ask a question, please press star 1-1 Our next question will be coming from the line of Dennis Piasci of Needham & Company. Your line is open, Dennis.

Dennis Piasci | Analyst, Needham & Company:

Great. Thank you very much. So my first question is basically about your three segments. So performance-wise, what do you think we can expect from all of these in 2026? Do you think you could provide some sort of color that's either quantitative or qualitative in nature in terms of which ones would do better than the other?

Wally Rhines | Chief Executive Officer and Director:

Okay. As we indicated in the summary, the really large percentage growth will come in IP. But the core business of TCAD continues, will be strong. It's a profitable growing business. And so it's, while not the fastest grower in the coming year, it will grow just as Chris indicated. The third is, will grow less. had a record growth this past year, and that's EDA. So we expect it to simply be stable, a good part of the business, having strong renewals, but the growth of individual products will be slower. So fastest growth, IP, second fastest, TCAD, and the new FCCO, which is almost a totally different business from TCAD, and then IP, third. I'm sorry, he had EDA, sir.

Dennis Piasci | Analyst, Needham & Company:

Yeah, no, that's great. Thank you. And then, so for my second question, I think you mentioned that you're going to be doing like an incremental $5 million in annualized OPEX reduction. Can you tell us what is this additional source of savings that you found? Chris?

Chris Segarelli | Chief Financial Officer:

Yeah, no, I can speak to that. I mean, we were always executing this as broad streamlining and cost reduction effort within the company. Last call, we said at least $15 million But as we've been working through the synergies, we found some good opportunities in SG&A, for example, to really streamline and kind of focus the team on activities. And we've also found some opportunities in selected businesses as well. I think for me, this is all part of that broader strategy of getting the business profitable at flat revenue. You can see with the reductions in OpEx in Q4, which was faster than expected, a continuation into Q1, and it will continue into Q2. This is just showing that move towards profitability. And then as we hit the growth drivers that Wally was alluding to, there's a lot of profitable growth that comes from that kind of upside once we kind of get that firm foundation in place. So expect some incremental reductions to go from here. As Wally indicated, most of it has already been executed. There is a little bit more And that's kind of what you see in the coming quarters in terms of sequential reduction.

Dennis Piasci | Analyst, Needham & Company:

Understood. Much appreciated. Thank you.

Operator | Conference Operator:

And I am showing no further questions. I would now like to turn the call back to Wally for closing remarks.

Wally Rhines | Chief Executive Officer and Director:

Well, we thank you all for joining us today. It's been a great quarter for us, and our outlook is strong and getting very exciting here. We look forward to talking to you again in the near future, and thank you again for joining us today.

Operator | Conference Operator:

And this concludes today's program. Thank you for participating. You may now disconnect.