NASDAQ:SVCO Q1 2026 Earnings Call Transcript

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Conference Operator | Operator:

Good afternoon and welcome to Silvaco's first quarter fiscal year 2026 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 Zigarelli, Silvaco's CFO.

Chris Zigarelli | Chief Financial Officer:

Please proceed. Thank you.

Silvaco Investor Relations | Investor Relations:

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 the company's 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 12-31-2025 provides descriptions of these risks. With that, I'd like to turn the call over to our CEO, Wally Rind. Wally?

Wally Rhines | Chief Executive Officer:

Good afternoon. I appreciate you joining us today. I am very pleased with our results in Q1. Momentum continues to build on multiple fronts. Financially, we delivered solid Q1 results and issued compelling guidance for Q2. In Q1, we saw bookings, revenue, and gross margin all above the midpoint of the guided range, which cut our non-GAAP operating loss in half sequentially. We delivered 26% year-over-year revenue growth. Our Q2 guidance confirms that we expect to reach an important milestone in the quarter, that is delivering non-GAAP operating profitability for the first time since Q4 of 2024. From a cash perspective, Q1 was the first sequential growth in unrestricted cash on the balance sheet since the IPO in May of 2024. Our focus on financial discipline and predictability is delivering tangible results. Our team has rallied around this cause and is delivering solid results and important milestones. I want to start with more good news on the AI front. For the second quarter in a row, we secured a new FTCO AI-driven manufacturing customer engagement in Q1. We're in discussions with several more companies and expect one of them to close in Q2. We also received an order from an existing FTCO customer for new functionality. Momentum continues to build for our AI-driven manufacturing strategy, both in terms of new as well as existing customers. While market adoption of FTCO is still in the early stages, these are signs that Momentum is building and the market is responding very positively to what AI manufacturing development can unlock for our customers. Before providing more details on results, I want to give you an update on the company's strategic pivot on

which Chris and I have been focused since joining the company. Our guiding principles have centered on playing to Silvaco's strengths, leveraging AI, targeting markets where we can build a top franchise, customer obsession, and financial discipline. Leveraging Silvaco's strengths means extending our lead in target markets and deepening the moat around core technologies. That means delivering differentiated AI-driven solutions for power, memory, foundry, and display segments. In power, We have unique advantages, particularly for wide bandgap semiconductor process and product development. For memory, our partnership with Micron is an example of how we can deliver real value to the biggest and best companies in the industry. In technology, we will widen our lead in core areas, including multi-physics simulation, which was critical to the introduction of FTCO. AI is a crucial element of our strategic shift. We've deployed AI internally and are already seeing phenomenal results. We've seen up to 6x acceleration in graphical user interface development, up to 10x acceleration in new feature design and accelerated verification testing of IP. We've also built AI directly into more of our solutions. The best example is clearly AI-driven manufacturing, or FTCO. Virtualized process development is turning into a must-have feature across the semiconductor industry. Other examples include building better mathematical optimizers and simulators and rolling out AI assistance, which increase ease of use. Deploying AI in our EDA tools means customers get to SPICE models quicker, design optimized layouts faster, and optimize power, performance, and area in everything they design. Our AI-first approach to roadmap acceleration means that we are all in on developing optimized solutions that meet the needs of customers. We also remain relentless about financial discipline. With our $20 million cost reduction initiative largely behind us, we're now building discipline into the culture of the company. We think in terms of efficient process, streamlined structure, and cost optimization. Taken together, we believe that these strategic priorities position us well to grow the top line faster than peers and to grow profitability faster than revenue. I look forward to reporting updates on these strategic initiatives in the quarters ahead. But now let's turn back to quarterly results. We continue to see significant strength in TCAD. In Q1, TCAD bookings grew 13% sequentially and 49% year over year to $10.5 million. Revenue grew 10% sequentially and 22% year over year to $9.6 million. Growth in the quarter was driven by significant milestones for FTCO including securing a new customer and broadening the product line to include additional functionality. Looking forward, we see solid momentum for FTCO. We see strong potential from engagements with governments, power applications, and semiconductor equipment companies. On the government side, we inherited engagements in photonics from our TechX acquisition. We have real opportunities to leverage the broader Silvaco portfolio for meaningful future engagements. With equipment companies and power applications, we see growing interest in FTCO and digital twin modeling that we expect to generate compelling growth opportunities going forward. We see these trends, AI-driven FTCO, government engagements, and power and equipment companies as drivers that will drive growth for quarters and years to come. After a strong Q4, we saw our semiconductor IP product line pause in Q1. Semiconductor IP delivered bookings of $3 million in the quarter, down 41% sequentially, but up more than 200% year over year. IP revenue was $4 million, down 21% sequentially, but up 270% year over year. Sequential softness in IP was driven by timing of new customer wins. We had a few key designs push out by roughly one quarter. Year-over-year trends in IP reinforce the fact that this business has reached a new baseline with the integration of Mixel's industry-leading MIPI-PHI IP. Our IP sales pipeline continues to grow, particularly for our automotive soft IP and for Mixel Pro, a production-ready set of products that were introduced in the first quarter. Our IP pipeline has roughly doubled over the past year. These leading indicators support our view that we expect to deliver steady growth in IP through the rest of the year. We expect IP to grow sequentially into Q2 and to be our strongest grower this year. Turning to EDA, we saw decline in Q1 bookings and revenue. Q1 bookings came in at $3.8 million with revenue of $4.1 million. Here, we continue to focus on shifting priority to a handful of core products that we believe can deliver significant growth. We talked last time about potential for Javaro as one of those core offerings. Another focus area is Utmost, which is a database-driven platform for device characterization and SPICE model extraction. We just released an AI-driven version of Utmost, which now delivers up to 10x performance improvements, a machine learning optimizer, and other runtime enhancements. This is another example of how the team is building next-generation AI-driven solutions. Javaro and Utmost are just two of the core EDA products that are positioned for growth as we focus development, sales, and field application resources on these drivers. We expect stability in this area of the business in the short term, and then a return to growth as these new priorities deliver results. While I'm proud of the progress we've made in a short

amount of time, I also recognize the task before us. We've made great strides in stabilizing the business, enhancing liquidity, and streamlining operations, and focusing strategically on the core product that we expect will deliver accelerated growth and profitability. We all look forward to driving our semiconductor IT business to new highs, getting EDA back to growth, and feeding the momentum we see in FTCO. We all continue to believe that the best is yet to come. I look forward to seeing how far we go in the coming quarters. 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 Zigarelli | Chief Financial Officer:

Thanks, Wally. Good afternoon, everyone.

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In Q1, we delivered $17.2 million in bookings and $17.8 million in revenue, both above consensus and above the midpoint of our guided range. Bookings and revenue both grew 26% year over year. Strength in the quarter came from TCAD. We want another new FTCO customer in the quarter and partnered with an existing FTCO customer to add new functionality to their deployment. Looking forward, We see strong interest in FTCO and expect to close one more new FTCO customer in Q2. From a geographic perspective, we saw the most growth in Q1 from the Americas region, which grew 24% sequentially and accounted for 44% of total revenue in the quarter. Looking down the P&L, GAAP gross margin in Q1 was 86.4%, and non-GAAP gross margin was 87.9%. GAAP and non-GAAP gross margins sequentially increased by 305 and 235 basis points, respectively, and came in ahead of guidance and consensus. GAAP and non-GAAP gross margin also increased 779 basis points and 788 basis points year over year, respectively. Both GAAP and non-GAAP gross margins have benefited from our restructuring activities. We believe Gross margins will remain in this range of mid to upper 80s going forward. GAAP operating expenses were down 4.5% sequentially to $21 million. Non-GAAP operating expenses were down 3.6% sequentially to $16.1 million, above the midpoint of the guided range. From a total cost perspective, which combines operating expenses and cost of sales, GAAP total cost declined 6.5% sequentially and non-GAAP total costs declined 5.6% sequentially. Q1 results are the first time since the IPO when total non-GAAP spending declined in two consecutive quarters. Our guidance into Q2 indicates that spending is expected to continue declining sequentially. GAAP operating loss improved quarter over quarter to a $5.7 million loss. Non-GAAP operating loss was $471,000, well ahead of Q4 and ahead of expectations. Gap net loss in the quarter was $5.9 million, and gap EPS was a $0.19 loss. Non-gap net loss in the quarter was $574,000, and non-gap EPS a $0.02 loss. Next, turning to the balance sheet and cash flow. Cash and cash equivalents at quarter end was $10.9 million. As of Q1, we no longer have restricted cash on the balance sheet. Recall, cash, cash equivalents, and marketable securities at the end of 2025 was 18.3 million, which included 8.3 million of restricted cash. Therefore, unrestricted cash at year end was $10 million. Unrestricted cash grew almost 10% sequentially in Q1, the first time unrestricted cash grew sequentially since the IPO. Net cash used in operating activities in Q1 was $11 million. up from $9.5 million in Q4. Please note that this $11 million included the $8.3 million final litigation settlement payments, as well as $1 million in severance payments. Net of litigation and severance, net cash used in operating cash flow would have been $1.7 million in Q1. Adjusting for these same two factors, litigation and severance, Q4 net cash used in operations would have been $7.4 million. The improvement from $7.4 million to $1.7 million speaks to the meaningful improvement in our underlying economic. The improvement also supports our view that we will see positive operating cash flow by Q3. During the quarter, we also signed a non-binding term sheet with our banking partner for a $10 million revolving line of credit. We expect to close on this facility during Q2. Now, turning to guidance, for Q2 2026, we expect Bookings of $19 million, plus or minus 10%. Revenue of $18 million, plus or minus 10%. Non-GAAP gross margin around 88%. Non-GAAP operating expenses of $15.5 million, plus or minus 5%. In closing, the team delivered on several milestones in the quarter. We secured a second AI FTCO customer in as many quarters. We delivered growth in unrestricted cash for the first time since the IPO. We delivered two sequential quarters of spending reduction for the first time since the IPO. We see gross margins at highs and

see non-GAAP operating profitability coming in Q2. Wally and I want to thank the team for delivering these strong results. We look forward to continuing to deliver on our commitment to profitable growth. With that, operator, we will now take questions.

Conference Operator | Operator:

Thank you, Chris. At this time, we will conduct the question and answer session. As a reminder, to ask a question, you need to press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again. Please stand by while we compile the Q&A roster.

Chris Zigarelli | Chief Financial Officer:

Our first question comes from Robert Mertens from TD Cohen.

Conference Operator | Operator:

Robert, the line is open. Robert, your line is open. Moving on. Our next question comes from Blair Abernathy from Rosenblatt Securities. Blair, your line is open.

Blair Abernathy | Analyst, Rosenblatt Securities:

Hi, guys. Can you hear me?

Conference Operator | Operator:

Yes. Hi, Blair.

Blair Abernathy | Analyst, Rosenblatt Securities:

Yes, hi. Hey, Wally. Hey, Chris. Thanks for taking the question. I apologize. I was not able to listen to the whole first part of your prepared remarks, so if you've already repeated, if this is a repeat, just let me know, but... Let's talk about the FTCO, in particular the pipeline. It's interesting your comments in your press release about governments looking at this, semiconductor equipment companies looking at this. Maybe, Wally, you can give us a sense of what does the market universe look like to you today for the FTCO?

Wally Rhines | Chief Executive Officer:

Yeah, I'm glad you brought this up because the diversity of users is is surprising even us. We started out, our big partner, of course, was Micron initially developing the basic capabilities, but we've found that it's applicable in a variety of other areas. It's applicable with equipment companies and that a different application again this quarter. As we mentioned, we've engaged with more in the coming quarter and are quite confident that at least one of those will close. And I think it just reflects on the capability it brings. You bring together a lot of data, you generate a lot of synthetic data, you build models, and then people can use it to guide the pathway for evolving their processes, whether they're developing manufacturing equipment or putting a process in place, moving to a next generation node. It just seems to have a great deal of very broad applicability.

Blair Abernathy | Analyst, Rosenblatt Securities:

Is the equipment makers looking at this in terms of design and development of their own equipment or in terms of working with their customers?

Wally Rhines | Chief Executive Officer:

So it's both. It does, in fact, give them an ability to tune their equipment, develop recipes, figure out results. But one of the specific cases that was brought to my attention in a meeting with a customer this quarter was they want to accelerate the time it takes for setup of equipment. And by having a reliable model, they can, in fact, tune in what the ultimate result should be from the process step, and therefore drive how the setup should be done. Saves time. Time for capital equipment is depreciation cost, and so their customers appreciate it and also appreciate the fact that they're able to process more in a shorter period of time.

Blair Abernathy | Analyst, Rosenblatt Securities:

So is this, if I got this right, Wally, is this a digital twinning process? for the install and setup.

Wally Rhines | Chief Executive Officer:

It is indeed. It is a digital twin that is able to simulate the actual behavior based upon what variables are input to the equipment or in the process recipe, the inflow of materials.

Blair Abernathy | Analyst, Rosenblatt Securities:

So is there an avenue here? Maybe I'm stretching this, but is there an avenue here whereby the equipment makers could your partner in selling the FTCO to an NFAB?

Wally Rhines | Chief Executive Officer:

The existing engagements hadn't really addressed that, but I suppose that is a possibility going forward because whereas they provide it for their particular piece of equipment, it's quite possible that the customers would ultimately want to license it more broadly and we're able to address multiple different types of equipment because we have built a database associated or a set of tools associated with many different types of equipment. So at the very least, it could be an introductory point as far as will we set up an arrangement to OEM the product. Haven't done that yet, but that certainly is a possibility.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay. Okay. Okay. Interesting. Okay. And the other question I had was just around the IP business, which was up quite strong year over year. How much of that was really, was Mixel? And maybe how's the opportunity pipeline or the funnel looking for your IP business?

Wally Rhines | Chief Executive Officer:

Well, as we mentioned, the IP business looks very strong for the rest of the year and much of the growth year to year comes from the addition of Mixel. So we had engagements in both. They are both contributing, and I would expect that as we go through the year, we'll start to see some additional contributions from the

off-the-shelf or the production ready. Right now, it's all the traditional Mixel business complemented by a near equal amount of the traditional IP business that involves memory compilers, cell libraries, and other standardized foundational IP.

Silvaco Investor Relations | Investor Relations:

And as we had indicated earlier, to that point, the pipeline organically has roughly doubled for that business in the last year, and it's even more than that if you layer in the added opportunities that came from the Mixel acquisition. So the pipeline trends are very encouraging in that business. While it did have a pause in Q1, we do see indicators of returning to growth sequentially in Q2.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay. Okay, great. And then, Chris, just to ask you here the – It looks like your OPEX guide for next quarter, $15.5 million plus or minus. Are we down to the level that you want it to be at? Is there any more significant change as we move from Q2 into Q3, or is business where you want it?

Silvaco Investor Relations | Investor Relations:

Good question. As Wally and I indicated when we joined, You know, we do want to drive the business to profitability, you know, at flat-ish revenue. And I think the guide into Q2 indicating positive non-GAAP operating income is an indicator of that. And so, you know, there are still some costs to come out, Blair. You know, some of the international reductions do take some time. So there are some downward trends in there. But there are also some tactical things we're investing in, like the AI tools that Wally alluded to earlier. And so my sense of it is it's in a pretty good spot now. It probably trends down to flattish from here. And I think we're going to be focusing on those growth drivers that we talked about. I mean, IP is a good example. Lots of good indicators of strength on the FTCO side. And you can see that even in the TCAD, you know, product line numbers, sequential growth, good year over year growth, really encouraging. And as IP gets to growth, that'll just be an adder to that. And we should see some good leverage from that continued growth from here.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay, great. And last question for you, Chris. I didn't see it, but is there a backlog number that you provided or will there be one in your queue?

Silvaco Investor Relations | Investor Relations:

We indicated bookings. We talked about revenue. We didn't put a backlog number there, but you can look for the additional information posted online to see if you find what you need.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay, great. Thanks very much, guys.

Conference Operator | Operator:

Thank you. One moment for our next question. Our next question comes from the line of Craig Ellis from B Reilly Securities. Craig, your line is now open.

Rebecca Zamsky | Analyst, B. Riley Securities:

Hello, this is Rebecca Zamsky on to Craig Ellis. My question is on TCAD bookings, which I believe you said was $10.5 million, which were up 50% year-on-year. Is this run rate sustainable, and how should we be thinking about TCAD going through this year? Thank you.

Wally Rhines | Chief Executive Officer:

Yes, I think TCAD is a solid core business for the company. As you can see, it grew substantially year to year. I don't think the 50% growth continues, but we will see growth. I think it will be a solid business, and I'd note that our FTCO business is part of these TCAD numbers. It's reported in that segment. So we have the benefit of the growth in a new and rapidly emerging business in FTCO. And then we have the basic strength of the key care business itself, which is doing well and that should continue through the year.

Rebecca Zamsky | Analyst, B. Riley Securities:

Great. Thank you. And on the FTCO wins, I believe you flagged there was one customer in Q1 and another one expected in Q2. Is this going to stay? start becoming like a recurring quarterly event, or would the new wins continue, like still be lumpy?

Wally Rhines | Chief Executive Officer:

Well, we certainly hope so. And based upon the customer visits and interaction that we've had, I think that we're quite hopeful that we'll be regularly adding new FTCO customers. And as I mentioned, They don't have to be the same type of application as ones in the past. We're continuing to find new applications, and that, too, should help the growth and the discovery of new possibilities.

Chris Zigarelli | Chief Financial Officer:

Thank you. Thank you. One moment for our next question.

Conference Operator | Operator:

Our last question comes from the line of Robert Mertens from TD Cohen. Robert, your line is now open.

Robert Mertens | Analyst, TD Cowen:

Thanks for letting me ask a question on behalf of Chris Sankar. I just wanted to maybe triangulate within your guidance for the June quarter. It looks like sales are kind of flat slightly sequentially, and you had mentioned that in your commentary, some strength in the IP business growing through the year. Is it fair to say that next quarter that TCAD is probably growing through the June quarter as well, and then maybe the EDA business contracts?

Wally Rhines | Chief Executive Officer:

Chris?

Silvaco Investor Relations | Investor Relations:

Yeah, I can take that one, Wally. I mean, yeah, I think it's fair to say that IP does grow sequentially. You know, EDA could be flattened down a little bit. TCAD could be to up a little bit is kind of the way that we're thinking about it. And I did want to provide a little extra color. There was an earlier question on remaining performance obligations or backlog. That number is at about 46.6 million on the quarter. So, you know, down slightly from what we saw in Q4, but remaining in that elevated high 40s range for the business.

Robert Mertens | Analyst, TD Cowen:

Got it. Thank you. And then maybe just a quick follow-up just to get clarification. I think this was asked just in terms of the OPEX number, but are you sort of expecting these levels that you got for the June quarter in the back half of the year? Is there any sort of savings on the SG&A line you expect to continue to bring down?

Silvaco Investor Relations | Investor Relations:

From an OPEX perspective, yeah, as I indicated, there are continued downward pressures on spend. There are some of the targeted reductions that will be playing out in the coming quarters, most notably on the international side. Some reductions do take a little bit more time than they do in other jurisdictions. You know, there are some targeted places where we're making some incremental investments. The AI tools are one of them. And Wally alluded to, you know, solid indicators that we see a good ROI from those investments in terms of accelerating and broadening the roadmap. So we're encouraging, we're encouraged to see those benefits, you know, roll through the business and deliver upside to revenue. So I do see a continued trend to kind of down a bit to flattish, as I said, on the OpEx side. And the pipeline has been encouraging and it continues to grow. Most notably, IP pipeline has been growing really nicely. And so we do see room for growth from here, particularly on the IP front. But As FTCO continues to roll through the business and the winds continue to build, that's an obvious tailwind on the TCAT side as well.

Robert Mertens | Analyst, TD Cowen:

Great. Thank you for the caller.

Conference Operator | Operator:

Thank you. 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.

Chris Zigarelli | Chief Financial Officer:

We will stand by for one minute.

Conference Operator | Operator:

With that, this concludes the question and answer session. I would now like to turn it back to Walden Rhines for closing remarks.

Wally Rhines | Chief Executive Officer:

Well, thank you. We're pleased with the continued momentum in our business, looking forward to profitability next quarter, and the AI-driven FTCO continues to provide a great opportunity for us moving forward. Like so many businesses, AI is helping us both internally and helping us with our customers and creating new business opportunities. We look forward to sharing them with you in the coming quarters. Thank you.

Conference Operator | Operator:

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.