NASDAQ:SVCO Q2 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Good afternoon and welcome to Silvaco's second 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 Zegarelli, Silvaco CFO. Please proceed.

Chris Zegarelli | CFO:

Thank you. Joining me on the call today is Wally Rhines, 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 and the most recent quarterly report on Form 10-Q provide descriptions of these risks. With that, I'd like to turn the call over to our CEO, Wally Rhines. Wally?

Wally Rhines | CEO and Director:

Good afternoon and welcome. We appreciate your joining us on today's call. I'm pleased to report that in the second quarter, we made solid progress on our strategic transformation, highlighted by multiple new partnerships, Strong year-over-year growth across all product areas, and the company's return to non-GAAP operating profitability for the first time in almost two years. For those of you who may be new or still coming up to speed on our story, I want to begin with a brief high-level summary of our ongoing strategic transformation. Over the last year, we've made significant progress on our plan to streamline operations, reduce costs, and focus on strategic growth drivers. Our objective is clear. Drive to profitability and position the company for sustainable, profitable growth. Looking at Q2 results through this lens of transformation, we see meaningful progress. We delivered another sequential quarter of non-GAAP operating expense reductions. We saw our first non-GAAP operating profit since late 2024, almost two years ago. We also delivered 48% revenue growth year over year and saw record bookings in revenue in our IP products. We also announced multiple strategic partnerships that fundamentally strengthen our position in the emerging market of AI-enabled manufacturing and process development. Partnering with NVIDIA on GPU enablement and with Dassault Systems on multi-physics and deepening our partnership with Micron highlights the value of our strategic focus on AI manufacturing. And now I'd like to talk about the three transformational partnerships. All three focus on Silvaco's leading multi-physics portfolio and give us more paths to market, more exposure to leading-edge AI assets, and broader reach as part of a more complete solution for our customers. The first strategic partnership is a collaboration with NVIDIA. As was announced by NVIDIA at the Design Automation Conference, we've collaborated to integrate NVIDIA accelerated computing and AI with our physics-based simulation portfolio to enable next-generation digital twins. Through this partnership, Silvaco is combining decades of physics-based modeling expertise with NVIDIA's accelerated computing, CUDAx platform, and AI frameworks. Our combined technologies are expected to help customers reduce simulation cycles from weeks to days to improve accuracy and insight and to scale engineering and collaboration. We're excited about what this partnership means for our customers and for the industry as a whole. Now, the second strategic partnership is with Dassault Systems Simulia to develop interoperable workflows. This partnership is focused on developing connected workflows that help semiconductor manufacturers achieve first-time right process development, accelerate their yield ramps, and make better manufacturing decisions before committing costly fab resources. The collaboration brings together complementary simulation technologies spanning reactor-scale plasma simulation, feature-scale semiconductor process modeling, and Structural Stress Analysis. By connecting these domains through integrated workflows, we aim to help semiconductor companies better understand how equipment conditions influence wafer level outcomes, enabling more informed engineering decisions. By improving interoperability, customers can identify potential issues earlier in development and make decisions with greater confidence. Now, the third strategic partnership builds upon our longstanding relationship with Micron. We announced today that Micron is investing $10 million in a Silvaco convertible note. More importantly, the two companies aligned on deeper strategic collaboration to continue building out the disruptive FTCO, or FAB Technology Co-Optimization Foundation, that Micron and Silvaco had built together. Micron was early to see the potential of combining AI with physics-based simulation to create a truly virtual platform to accelerate time to market. I'd like to take a moment to thank our friends and partners at Micron. These three partnerships lay the foundation for accelerated growth. Given our strong pipeline into Q4, and with these new partnerships in place, we now expect to see record revenue in Q4 and to deliver double-digit revenue growth in 2027. Looking forward, we expect to continue benefiting from three significant growth drivers. First, FTCO. Silvaco has a strong foundation in multi-physics. Our investments in AI have created a disruptive FTCO workflow that broadens our user base well beyond traditional TCAD engineers and Unlock's unique value propositions and use cases for our customers. The partnerships announced today reflect broad recognition of that differentiation and potential, and we remain focused on driving our advantage here in delivering above average market growth in this area. We see outsized growth potential for this business driven by broadening the user base, adding AI functionality and integrating more assets from across Silvaco to deliver a truly unique and disruptive platform. Our second growth driver is IT. With the market leading assets acquired with Mixcel, we see IT emerging as a solid growth driver. We delivered record IT bookings and revenue in Q2 and continue to see potential for this business to double year on year in 2026. This business grew revenue 238% year-on-year in second quarter. The market for our IP is vast at more than a billion dollars. In this context, our expected $20 million of IP revenue in 2026 is just a drop in the bucket. We've also seen the most growth in our pipeline in the IP space, with the pipeline up more than 4x over the last year. Our focus on efficiency, AI integration, and Redoubling Sales Efforts has a lot of room to run. We look forward to seeing our IT team continue to build a solid book of business with some of the largest players in the industry. The third growth driver is AI. Our view is that AI is a clear positive for Silvaco. We see significant increases in our capacity to innovate with our existing resources as we invest in usage of AI tools for internal development. For example, we've seen some forms of prototyping accelerating up to 30x, source code analysis up to 11x, scripting about 10x, and debugging up to 5x. We expect these innovations to accelerate our roadmap, accelerate time to market, and position us to deliver profitable growth. On the product side, we continue to develop AI-focused products, including our FTCO workflow, integrating AI into existing products, adding agetic offerings, and using AI agents to further improve our customers' productivity. These innovations include an AI-enhanced version of our product called Utmost that reduces time to model by up to 50%. In our IT business, We're developing disruptive tools with AI that will accelerate the cadence and quality of our offerings. And in EDA, three of the five largest chip companies turned to Silvaco for netlist reduction. With Javaro Pro, we can reduce terabyte netlists to gigabytes and reduce simulation times by an average of 6x. In conclusion, our strategic transformation is progressing well, and our roadmap and partnerships set a solid foundation for growth. I'd now like to turn the call over to Chris, who will discuss our financial results and outlook in more detail. Chris?

Chris Zegarelli | CFO:

Thanks, Wally. Good afternoon, everyone. In Q2, we delivered $16.2 million in bookings and $17.8 million in revenue. Bookings grew 25% year over year, and revenue grew 48% year over year. We saw solid revenue growth across all product areas, but most notably in IP, where we delivered record bookings and revenue. IP revenue grew 238% year-over-year in Q2. On the TCAD side, during the quarter we won another new FTCO customer. Looking forward, we continue to see strong interest in FTCO and expect to secure more FTCO customers through year-end. From a geographic perspective, we saw the most growth in Q2 revenue from the EMEA region, which grew 30% sequentially and accounted for 10% of total revenue in the quarter. The Americas remains our largest region, representing 46% of revenue in the quarter. Our revenue in the Americas has grown 30% over the last two quarters. Looking down the P&L, GAAP gross margin in Q2 was 85.2% and non-GAAP gross margin was 86.8%. Gap and non-gap gross margin sequentially decreased by 124 and 111 basis points, respectively, which was driven by mix. Gap and non-gap gross margin are up over 14 full percentage points and 12 full percentage points year over year, respectively. Both gap and non-gap gross margins have benefited from our restructuring activities. We believe gross margins will remain in the range of mid to upper 80s going forward. Operating expenses for the quarter reflect our commitment to focused and disciplined spending. As of the end of Q2, we have successfully executed on our targeted $20 million in annualized spending reductions. In the quarter, GAAP operating expenses were down 8.7% sequentially to $19.2 million. Non-GAAP operating expenses were down 7.8% sequentially to $14.8 million below the midpoint of the guided range. from a total cost perspective, which combines operating expenses and cost of sales, GAAP total cost declined 6.9% sequentially and non-GAAP total cost declined 5.8% sequentially. Q2 results are the first time since the IPO when total non-GAAP spending declined in three consecutive quarters. GAAP operating loss improved quarter over quarter to a $4 million loss. Non-GAAP operating profit was $635,000, well ahead of Q1 and ahead of prior expectations. This is the first quarter since late 2024 when the company delivered a non-GAAP operating profit. GAAP net loss in the quarter was $3.7 million and GAAP EPS was an 11 cent loss. Non-GAAP net income in the quarter was $315,000 and a non-GAAP EPS of 1 cent. Next, turning to the balance sheet and cash flow. Cash and cash equivalents at quarter end was $13 million, up almost 20% sequentially. Q2 marks the second consecutive quarter of growth in unrestricted cash since the IPO. Cash balance at the end of the quarter did not include the $10 million from the micron convertible note, which closed in Q3. Net cash used in operating activities in Q2 was $5.5 million, half of the $11 million used in Q1. Please note that this $5.5 million included approximately $1.8 million in one-time items, including severance-related payments. Net of these items, net cash used in operating cash flow would have been $3.7 million in Q2. We continue to expect positive operating cash flow later in the year. Now, turning to guidance. For Q3 2026, we expect bookings of $18 million plus or minus 10%, revenue of $17 million, plus or minus 10%, non-GAAP gross margin around 88%, non-GAAP operating expenses of 14.5 million, plus or minus 5%. Looking forward, we see a very strong pipeline for the fourth quarter. While Q3 has tended to be seasonally soft for TCAD, we have historically seen strong TCAD growth in Q4. The strong pipeline, combined with a history of Q4 strength, supports our expectation of record revenue and continuing operating profitability in Q4. As a result, we also expect full year 2026 revenue to be above $70 million. Looking into 2027, we expect double-digit revenue growth as well as non-GAAP operating profitability and positive cash flow from operations. In closing, we continue to see strong progress on our strategic transformation. We've seen our first non-GAAP operating profit since late 2024 We delivered record bookings in revenue and IP and announced multiple strategic partnerships that fundamentally strengthen our position in AI manufacturing. We also continue to improve customer productivity by leveraging AI. Wale and I want to thank the team for delivering these milestones. We look forward to continuing to deliver on our commitment to profitable growth. With that, operator, we will now take questions.

Operator | Conference Call Operator:

Thank you. At this time, we will conduct the question and answer session. As a reminder, to ask a question, you'll 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 the Q&A roster. Our first question comes from the line of Krish Sankar of TD Cowen. Your line is now open.

Krish Sankar | Analyst, TD Cowen:

Hi, thanks for taking my question. And Wally and Chris, congrats on getting NVIDIA as a customer and a Micron investment. Wally, my first question is, you know, I remember when you took over in November last year, you kind of said that FTCO alone can drive up the revenues of the company. Micron has been a customer for a while for FTCO, now you have NVIDIA. I'm just wondering, are these two enough? Because Micron has been around for a while, but hasn't scaled up as much as I would have thought. And now with NVIDIA, do you think that that statement is true? And if so, what kind of time frame where you think FDCO can really be meaningful for the company revenues? And then add a follow up.

Wally Rhines | CEO and Director:

So the FDCO is a longer term strategic growth that grows incrementally every quarter as we announce new customers. The existing customers will, of course, grow, but it's new customers that spur the increased growth and then Once adoption begins in a company, then it spreads to more and more applications in the manufacturing processes. Now, the short-term driver for rapid growth is IP, as you saw in our numbers. While we had strong EDA growth as well, IP has had a remarkable growth in its backlog and, as was highlighted, Forex pipeline growth in the last year. So what you should expect is overall a slow, steady growth of the FTCO-driven TCAD part of the business, which we expect will accelerate over time as more and more users join in and the existing users expand the use across more and more of their manufacturing processes and design processes.

Krish Sankar | Analyst, TD Cowen:

Got it. Very helpful. And then the other one is, you know, obviously you deliver on your own. , and that's kind of good to see. I was going to say that when I look at it like the revenue and bookings numbers both for June and September are like a touch below what I thought it would have been and I think Chris mentioned Q4 can be a big quarter. I'm just trying to understand how big can Q4 be and when you mean double digits next year are we talking about low teams kind of a growth or mid teams kind of a growth? Any color number would be helpful. Thank you.

Wally Rhines | CEO and Director:

I'll let Chris amplify, but basically because of our approach to revenue recognition, there is lumpiness quarter by quarter. As Chris highlighted, fourth quarters tend to be strong renewal quarters and that tend to be the strongest quarter of the year, but the overall growth in any one quarter is not indicative of the longer term growth. Chris?

Chris Zegarelli | CFO:

That's fair, Wally. Thanks, and good question. I would just point out, I mean, we just hit a record on LTM revenue for the last 12 months, revenue about $72.5 million. If you look back, you know, our record revenue quarter was last year at about 18.7. So when we say we see confidence in hitting record revenue in Q4, it's obviously in excess of that. And, you know, those statements come from multiple sources. First, The pipeline looks really strong, very healthy and broad going into Q4. So we're really encouraged by that. And that's one of the big drivers of it as well. And the partnerships that we talked about on the call that Wally mentioned are also going to contribute to that growth in Q4 as well as the Forex growth and IP pipeline also.

Charles Shih | Analyst, Needham & Company:

Looking at next year, when we say double-digit growth,

Chris Zegarelli | CFO:

We haven't given more color on that, but you can expect, obviously, at least 10% growth or a little more. We said we'll be over $70 million in revenue in 2026, so plus 10% gets you closer to high 70s or 80 on the year in 2027. As we progress, we'll give more color on that. But again, the pipeline strength gives us confidence there, and the pipeline growth also gives us Thanks, Chris. Thanks.

Operator | Conference Call Operator:

Thank you. Our next question comes from the line of Charles Shih of Needham & Company. Your line is now open.

Charles Shih | Analyst, Needham & Company:

Thanks for taking my question. Forgive me for any background noise. I'm at a conference right now. So, Chris, maybe let me just clarify. So you guided the September 7th I think 17.8, right? And the December has to be higher than 18.7. And I think at least relative to what I have modeled, the two quarter combined, the outlook hasn't really changed. It's probably just a few thousand bucks shifting around here and there. And is that the message you're trying to convey, answer to your last question?

Chris Zegarelli | CFO:

No, it's fair. We printed $17.8 million with Q2, guided to $17 in Q3 with record in Q4. So yeah, if you take a step back and look at what consensus was going into this call, yeah, Q3 a little bit below consensus. Q4 would be above. Put them together. I think you're right. We're also giving more color on growth into next year. I think the message is longer range visibility, continued growth, record LTM revenue here in Q2. all of these things pointing to what Wally was talking about on the IP side with four times pipeline growth record revenue there in the quarter seeing it have to about 20 million in revenue there in 26 and then kind of growing from there in 27 and I think another point to make is all three partnerships we talked about today are all really focused on the AI manufacturing side so the FTCO message does resonate broadly you're seeing some pretty big names coming in to engage on what is going to be a big opportunity. So to Wally's point, it's going to be a steady growth on that front. We haven't really hit that inflection in the S-curve, if you will, in FTCO, but these kind of leading indicators of large companies recognizing it and stepping in and participating in the ecosystem, I think is a good sign of momentum still to come. But Wally, did you want to give any more color on that?

Wally Rhines | CEO and Director:

No, I think you covered it fine. It's a and I think Charles has it well. It's steady as you go, but it's a very positive outlook. The long term, much greater growth comes from FTCO, but in the short term, the IP business is surprisingly healthy. It surprised even us with the strength of customer interest in the products we have and the good execution we've had in improving our efficiency of developing and supporting that IP.

Charles Shih | Analyst, Needham & Company:

Yeah, thanks. Maybe, Wally, a second question for you. I want to zoom out a little bit on the topic of AI. You know, I didn't go to DAG. I saw you were there at the time of the NVIDIA announcement, but the I think in general, especially for LLM, I know AI has reinforcement learning, all those classic AI stuff going on, but LLM-wise, people are, in general, among the investment community, are pretty worried about the disruption risk for the overall EVA industry, but I think specifically for you guys, Are you worried about that? Do you think LLM maybe could be applied somewhere in a part of the workflow that the Silvaco tools are participating in? And especially for TCAT, do you see opportunity where LLM can be applied, not just reinforcement learning?

Wally Rhines | CEO and Director:

Yes, as was brought out at DAC, all the indicators are that for a company like Silvaco, is a net positive and a significant one at that. TCAD's a fairly mature business, been around for many years. Silvaco's been in it for 40 years, and so it needs its next growth spurt. And just in time, AI has come along with the ability to generate digital twins or surrogate models, but that requires a lot more simulation to generate synthetic data. The announcement that NVIDIA made at the Design Automation Conference was indicative of how companies like Nvidia are helping us to take that capability to customers. They add yet another platform where we can, in fact, host our physics-based models. In the Nvidia announcement, they pointed out that they can provide the compute and the infrastructure, but what they lack are the physics-based models that generate the synthetic data. That's what Silvaco has been developing and using for the last 40 years. We have a wealth of those models, a wealth of customer experience with applying those models. And so adding an additional platform is great. Working with a company like NVIDIA and taking advantage of their increased compute capability with the CUDAx libraries we can generate a lot more data a lot faster and then host it both on our own platforms as well as their physics nemo platform and I think it's going to be a major plus for us and you might say well okay it's plus in ftco and in tcad but what about the ip business and the reality we're seeing is that it's a help for us too the productivity gains have been uh enormous Our ability to develop and support IP is accelerating. The fear that AI will do away with the need for the electronic design automation industry was refuted quite well at the design automation conference. And for one reason, a large share of our IP requires qualification for standards, automotive standards and other networking standards. and so individual designers can't short circuit that. They have to buy their IP from third parties and we are a third party that has a portfolio and that portfolio is growing as is the customer base.

Charles Shih | Analyst, Needham & Company:

Thanks, Wally. And maybe last question. The announcement of NVIDIA partnership, obviously, we don't really understand what exactly is required from your cost side or investment side from that perspective. But using GPU accelerated computing to enable some of the traditional chip design workflows In many cases, I would imagine probably require you to invest in GPU infrastructure, or maybe you do not have to, but any additional CapEx is going to be required to enable all the work covered by that partnership. Thank you.

Wally Rhines | CEO and Director:

Yes. Well, we've been increasing our CapEx to support the amount of GPU capacity. And so it's a long-term roadmap that will continue to grow. But it's not a big disruption. Chris can cover the basic growth rate. But I think the connection with NVIDIA gives us an opportunity for cooperative development. It allows us to generate much more data. And really, FTCO is enabled only by the ability to generate a large amount of data in these digital twins or surrogate models. And if you do it all with traditional computing, it's much slower. If you do it with GPUs, it can be accelerated dramatically. It's been demonstrated that certainly up to 10x in specific cases. And the faster you can generate that data, the more digital twin models that will be available, the better customers can then use those models to do rapid queries to ask simple process questions where the model, instead of doing a 10-hour simulation, now gives you an instantaneous answer. That's the goal. That's the early result that's been achieved by our leading customers, and we expect that will spread across the industry.

Chris Zegarelli | CFO:

And just to add to that, Wally, I think that's exactly right. So while operating expenses have come down, you know, quite meaningly from Q3 where it peaked last year to what we just reported for Q2, you know, with OpEx at 14.8, even within that time, we have been investing incrementally in things like AI tools that we referenced earlier in the call and seeing some pretty dramatic impacts on the development side. We've also been investing in things like GPU hardware, to set up that infrastructure. We do plan to continue to invest in that. And I would just point out, you know, we turned profitable here in Q2 from a non-GAAP operating income perspective that continues in Q3 based on the guide. You know, record revenue in Q4 means it continues again in Q4 and guided to it again for the full year of 27. So the business has definitely turned the corner on profitability. Positive cash flow follows. So we have been investing targeted amounts in things like AI tools and infrastructure. Expect us to continue to do that, to fully engage on this NVIDIA partnership for one. And it's just that balance of prioritized investments and ensuring we deliver the right results for investors while investing in the right assets to accelerate growth for the medium and longer term.

Charles Shih | Analyst, Needham & Company:

Thank you, Wally and Chris. That's all from me. Thank you, Charles.

Operator | Conference Call Operator:

Thank you. Our next question comes from the line of Craig Ellis of B-Relay Securities. Your line is now open.

Rebecca Zamski | Analyst, B. Riley Securities:

Hello, yes. This is Rebecca Zamski on for Craig Ellis. My first question for you is on TCAD. How are you, like, Can you provide some color in how you're looking at the trajectory in 3Q and 4Q and heading into 2027? Well, sure.

Wally Rhines | CEO and Director:

The adoption continues at a steady rate, and our number of actual engagements continues to increase. The companies that we engage in cover a wide range of industries, but the As has been noted, we are dealing with mainstream semiconductor companies. While we started with Micron and spent almost five years working with them to work out the kinks and get a smooth process going, we're now in a position where we can take this capability to a much broader base of customers. It's been about one new announcement per quarter. At that time, we'll be how quickly does the increase in license usage occur? So beyond services that might be part of the early part of engagement, how many additional licenses are required to generate the data to build the models? And I think the answer is the more people use it, the more data they will need, the more licenses they will need. It's something that, while it starts with a single feasibility demonstration, it then quickly proceeds to additional types of process steps, additional simulation, and as we mentioned, it's not just LLMs, it's agentic AI, that is the ability for agents to go in and query our models and that come up with answers to basic questions, in many cases in natural language, that answer the analysis of optimum process capabilities and optimum parameter settings to achieve the best process and the best manufacturing yield.

Rebecca Zamski | Analyst, B. Riley Securities:

Thank you. That was super helpful. And I believe you mentioned you're expecting Double-digit growth in 4Q. What would be driving that growth? Like would it be EDA, TCAD, IP? Like what do you see driving most of that growth?

Wally Rhines | CEO and Director:

Well, I'll let Chris amplify, but it's pretty much across the business. And the reason that fourth quarters are strong is a disproportionate share of customers renew their contracts at that time. Our contracts are typically multi-year contracts. and they tend to coincide with the calendars when people as they come to the end of the year they they now are putting their plans together they know their needs for the coming year and so historically it's been a stronger quarter than the others and that we don't see any reason for that to change and just to add to that well i mean we do see some good growth in even in 2026

Chris Zegarelli | CFO:

TCAP, for one, is growing nicely year over year. Our IP business is delivering really strong growth. It looks like it's going to double or a little bit more year over year in 26. And so Wally's right. The strength in Q4 is really across those main drivers, and those trends do continue into 27 as well. I'll just reiterate, the pipeline is very strong for Q4, supporting that strong outlook. And also, as we've dug into seasonality, There is indications that Q4 tends to be strong, particularly on the TCAT side. So we expect that trend to be no different going into Q4 of this year as well.

Rebecca Zamski | Analyst, B. Riley Securities:

Thank you.

Operator | Conference Call Operator:

Thank you. Our next question comes from the line of Blair Abernethy of Frozen Blood Securities. Your line is now open.

Blair Abernethy | Analyst, Frozen Blood Securities:

Hi. Thanks, guys. A couple of questions. I guess, and I apologize, I missed the first part of your call, but I just wanted to dig into a couple of things on the announcements here. So the FTCO win that you had this quarter, did you indicate, was there revenue associated with that in Q2, or is there a ramp period to revenue?

Wally Rhines | CEO and Director:

There was some revenue associated with it. We expect that over time, of course, as the implementation continues, there can be more revenue. But this is more a traditional one where there was upfront licensed revenue.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay, great. And Wally, did you give sort of what end market this went into?

Wally Rhines | CEO and Director:

This one was more a traditional semiconductor manufacturing.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay, okay. As you look at your pipeline, good growth in the pipeline opportunities, how should we think about that $292 million split between TCAT, EDA, and IP, which this quarter, obviously, IP continued to do well. Does it reflect that, or is it weighted more towards, say, the TCAT side?

Wally Rhines | CEO and Director:

The pipeline growth that we talked about is driven predominantly by the IP business. It's just really taken off. It's much healthier than even we anticipated, and as Chris indicated, we're looking at more than doubling IP growth year to year. So once again, IP, short-term driver of very significant growth, TCAD and FTCO, the long-term driver of growth major transformation of the company.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay.

Chris Zegarelli | CFO:

And just to add a little more color, absolutely right, the strongest sequential, the strongest growth over the last year in the pipeline for sure has been IP on a percentage basis, but the TCAD and FTCL pipeline does remain strong as well. I'd just say those are the two strongest pieces of it. Both have grown nicely. IP just on a percentage basis has grown more.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay, and then the EDA segment, which I know we've talked in the past about how you're looking at focusing investments on the growing areas. Overall, should we look at EDA as keeping out the company growth rate going forward, or is it going to shrink relative to the TCAD and SIP percentages?

Wally Rhines | CEO and Director:

Well, we haven't forecast that. I think We came through a transition as part of the overall transformation that Chris talked about, where we focused our EDA business in a smaller number of products where we have high leverage. And we mentioned a couple of those. Javaro is a particularly outstanding start. So we'll see growth in specific products, but we'll also see growth in solutions that are tied to our other two businesses. We have, in most cases, both the FTCO and the IP business provide opportunities for combinations of selling the EDA products along with the TCAD and IP solutions. And so as far as the long-term growth outlook for EDA, it's less of a major driver than the other two. but it still offers the potential for ongoing growth.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay, that's great and I apologize if you covered this in your prepared remarks but the DSO-Simulia partnership, what does that involve from a standpoint of what does Silvaco have to do and I mean I'm somewhat familiar with DSO's simulation portfolio but I guess, what exactly, how are you guys going to leverage their obviously much bigger installed base?

Wally Rhines | CEO and Director:

Yeah, so they provide a real resource for us in terms of taking us to a lot of customers we haven't traditionally been in. But the partnership is to develop interoperable digital twin workflows for semiconductor manufacturing. And it turns out that we have somewhat complementary simulation technologies. And so the real objective is for manufacturing operations to understand how their equipment conditions influence wafer level outcomes. And that requires very broad simulation if you cover all the aspects of manufacturing. You need to do detailed structural analysis that goes beyond and many more. has many engagements that we don't have and it brings a lot of strength and we really don't give up anything as a result of this. So it's a very positive relationship.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay, great. And then just Chris, if I could, just two quick ones for you. When you use the term record revenues in Q4, are you referring to the highest Q4 ever or the highest quarter ever?

Chris Zegarelli | CFO:

The highest quarter ever.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay. Okay. Great. And then just the micron convertible note, I'm assuming, when did that close?

Wally Rhines | CEO and Director:

Oh, that closed historically in third quarter. Oh, sorry. Go ahead, Chris.

Chris Zegarelli | CFO:

No, no. Well, you got exactly right. It closed in Q3 before the call after the end of the quarter, so pretty recently. Okay.

Wally Rhines | CEO and Director:

I should note, this is much more than just an investment by Micron in the company. This involves an affirmation and roadmap for going on with further developments, taking advantage of the impact that we've been able to provide with the FTCO technology, which was developed cooperatively with Micron, and reaffirming our future direction in enhancing that and adding new capabilities.

Blair Abernethy | Analyst, Frozen Blood Securities:

Okay, great. Excellent. Thanks very much, guys. Appreciate it.

Operator | Conference Call Operator:

Thank you, Blair. Thank you. Thank you. Our next question comes from the line of Christian Schwab of Craig Holland. Your line is now open.

Christian Schwab | Analyst, Craig Holland:

Great. My only question is a follow-up, Wally, on the Micron investment. It's, you know, seemingly discussed for a second there for further development to add new capabilities, but is that how that deal came together? Can you give us the details of how the Micron... Thank you for joining us.

Wally Rhines | CEO and Director:

continue to grow and cement our relationship. From our point of view, Micron is a much more attractive source of funding than simply borrowing from disinterested parties. You're working with a partner, the partner invests in you, and then a part of it, as highlighted in the quotes that Micron provided, is to help them develop their next generation processes and the Dr. Gurtej Sandhu is in charge of that long-range process development and he has worked out a roadmap and he's given a number of public speeches. He's also featured on our site describing what is unique about what Silvaco provides, what is the future of process development, how do we move from what has been a TCAD-only capability in the past and the use of numerous physical wafers to verify processes to the future, which will be done more and more virtually simply because pilot wafers are not going to be feasible. The processes are too complex. You can't look at that many variables. You can't handle the long cycle times. It has to go virtual. Micron has been a leader in defining the path. We've been very proud to work with them to demonstrate that, in fact, it does work and it will be an engine of growth for the future.

Christian Schwab | Analyst, Craig Holland:

Great. Thanks for the clarity. No other questions.

Wally Rhines | CEO and Director:

Thanks, Christian.

Operator | Conference Call Operator:

Thank you. I am showing no further questions at this time. I'd like to thank you all for your participation in today's conference. This does conclude the program and you may now disconnect.