NASDAQ:SVCO Q3 2026 Earnings Call Transcript

Generated on 11/25/2026

Conference Operator | Operator:

Good afternoon and welcome to Silvaco's third 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 that this event is being recorded. I would now like to turn the conference over to Chris Zegarelli, Silvaco's CFO. Please proceed.

Chris Zegarelli | CFO, Silvaco:

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 the 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. We will also discuss non-GAAP financial measures. Reconciliations to the most comparable GAAP measures are in today's press release. With that, I'd like to turn the call over to our CEO, Wally Rhines. Wally?

Wally Rhines | CEO and Director, Silvaco:

Good afternoon, and thank you for joining us. When I stepped into the CEO role with Silvaco just over one year ago, I said it would take about a year to see the results of our strategic transformation and restructuring initiatives. One year later, the facts are clear. A record Q3 for TCAD bookings. A record quarter for Javaro Pro bookings. Meaningfully reduced operating expenses. Record revenue guided for Q4. and an outlook that takes us to mid to high teens revenue growth in 2026 and 2027. Now in Q3, we delivered 19.3 million in bookings driven by FTCO and Javaro. On the FTO side, we secured a major new tier one customer in the quarter. This win propelled PCAD bookings to a Q3 record of $10.3 million up 89% year on year. We won the business on the strength of our differentiated, multi-physics solutions embedded in our FTCO workflow. This strategic win has the potential to broaden in 2027 as we ramp our agentic offerings, which are already at beta sites. Under the new leadership of Dave Dutton in sales, this is a model we intend to replicate across our sales regions in 2027. This win also included multiple licenses for Javaro Pro, our RC parasitic reduction solution. In fact, we won four Tier 1 customers with Javaro Pro in the quarter, making Q3 a record for Javaro Pro bookings. These customers chose Javaro Pro for its ability to run complex models, reduce time to market by days or weeks, and reduce spice spend by as much as 50%, potentially saving millions. Javaro Pro's compelling value proposition, coupled with strong responses from large customers, gives us confidence that Javaro Pro can deliver solid growth in 2027 and beyond. We believe that our Q4 guidance is a clear indication that this momentum is real. Our guidance calls for record quarterly revenue of $22 million at the midpoint, up 35% sequentially and 21% year over year. Implies full-year 2026 revenue growth of 17%. 2026

expected results steadily improved during the year, driven by continued adoption of FTCO, now at another Tier 1 customer, and also by growth in EDA, particularly Javaro Pro, and strength in IP, driven by Mixel NIFI 5. Looking forward, we now expect to deliver similar top-line growth in 2027. will keep driving FTCO adoption, which we believe will accelerate with our upcoming agentic offerings, especially with larger customers. We see IP growth broadening outside of MIPI 5. We also see promise in certain EVA tools, like Javaro Pro, contributing to growth. We expect to deliver mid- to high-teens revenue growth on a linear cost base, the combination of which should enable us to expand profitability as we grow. I'd like to highlight key drivers of these operational and financial improvements. One, our total GAAP OpEx is down almost 25% from Q3 25 to Q3 26, while revenue is now expected to grow 17% in 2026. We're doing more with a smaller, more focused team. Two, FTCL momentum continues to build. We're winning with bigger customers, and bundling more functionality into single sales. Three, we recently streamlined operations around two focused product teams, AI manufacturing and AI design. Grouping the right products under the right leadership is yielding benefits in planning, execution and growth. Number four, our support functions are now more focused, with some groups at about half the size they were when I joined the company. We strengthened the leadership team, most recently with the addition of our former CEO, David Dutton, to lead the sales operations. Stronger leadership is yielding tangible results. Number six, IP momentum continues to build. From a group that generated $5.5 million in revenue in the four quarters ending Q3 25, we're now on track to grow IP revenue this year to almost $20 million. We also have a pipeline that is 1.8x larger today than it was one year ago. We expect IP to continue delivering strong growth in 2027. These changes are foundational, which makes me believe that we'll continue to build on improvements made over the last year to drive growth and enhance profitability. We're also on stronger financial footing now than we were one year ago. As Chris will discuss later in the call, we saw a significant improvement in cash used in operations in Q3 and have the most unrestricted cash on the balance sheet since Q2 of last year. We're gaining operational flexibility right when the business is accelerating. I'm going to give you an update across our key product lines. In FTCO, we see evidence of broadening customer interest. As customers renew their TCAD licenses, we see them increasingly adding our FTCO workflow. That workflow includes our core multi-physics solvers, analytics, design of experiments, and other features. As our customers experience the power of FTCO, which accelerates time to yield and time to market, we see them renew earlier and increasing the number of licenses. This trend both increases our renewal rates and the value of those renewals. Looking forward, we expect this to be a growth driver for years to come. Sulaco is expanding its market presence with invited speaker engagements at Semiconductor India and Semiconductor West, as well as ICICAD and Q4 on the growing importance of agentic AI. This topic is important to us, as we expect our agentic AI solutions to strengthen FTCO adoption by making it easier for non and PCAD experts to use our FTCO workflow, thereby increasing usage and licenses. We believe that agentic AI will not replace physics-based simulation, but it will multiply the need for it. An agent exploring hundreds of process variations still needs a calibrated, physics-grounded model to be right, and that means more FTCO usage and more licenses. Two of the largest technology companies are already evaluating our adjunct offerings at beta sites. At Semicon India, we signed multiple strategic memoranda of understanding to expand access to our tools across India's design and research ecosystem. We're also advancing similar partnerships with more universities and institutions, and we're also engaged with leading Indian foundry and design companies on process enablement. We expect these engagements to contribute to growth in quarters and years ahead. Building on our NVIDIA partnership announced at DAC, we are also cost-effectively building out our internal GPU and AI infrastructure. That infrastructure will set the foundation for selected multi-physics solvers to run on GPUs, and it will broaden our agentic offerings by building tight interactions between large language models and our solutions. Turning to IP, we're continuing to expand our MIPI portfolio. In the quarter, we sold our first internally developed controller in combination with our industry-leading MIPI PHYs. We also delivered a fully functional two nanometer MIPI C PHY D PHY combo solution. These developments are significant because we now offer a complete MIPI solution integrating high-speed MIPI PHYs and MIPI CSI, DSI controllers to address customer imaging and display requirements. We also continue to see measurable efficiencies from our cost effective deployment of AI tools. We've seen examples of prototyping accelerating up to 30x, source code analysis up to 11x, scripting up to 10x, and debugging up to 5x. We see the team generating higher quality code more quickly which we believe will contribute to top line acceleration. We see AI adoption as a clear accelerant for FTCO usage among our

customer set. The easier it is for customers to use our FTCO and TCAD solutions, the more benefit they'll realize. In conclusion, we believe we are seeing a real inflection in the business as evidence in our expanding pipeline, FTCO adoption with larger customers, our strong expected growth in Q4, and strong mid to high teens growth expected again in 2027. I want to thank the team for a year of positive transition for Sovaco. And now, I'd like to turn the call over to Chris, who will discuss our financial results and outlook in more detail. Chris?

Chris Zegarelli | CFO, Silvaco:

Thanks, Wally. Good afternoon, everyone. In Q3, we secured $19.3 million in bookings above the midpoint of guidance. which is our strongest quarterly booking so far this year. DCAD grew 89% year-over-year to a new Q3 record of 10.3 million driven by a new FTCON with a significant Tier 1 customer. IP bookings grew 193% year-over-year driven by McSell. We delivered $16.3 million in revenue in the quarter, slightly below the midpoint of the guided range driven by timing as certain IP milestones moved out of the quarter. Gap gross margin in Q3 was 84% and non-gap gross margin was 85.3% down sequentially due to lower than expected revenue. Gap and non-gap gross margin are up roughly six and five full percentage points year over year respectively. We believe gap and non-gap gross margins will return to around 88% in Q4 given expected strong sequential revenue growth. In the quarter, GAAP operating expenses were down 6% sequentially to $18 million. Non-GAAP operating expenses were sequentially up slightly to $14.9 million. Operating expenses came in slightly above the midpoint of the guided range, primarily due to a higher than expected incentive accrual, given our strong guidance. GAAP operating loss of $4.3 million and non-GAAP operating loss of $1 million were both below expectations, primarily due to softer than expected revenue. Gap net loss in the quarter was $4.6 million, and gap EPS was a $0.14 loss. Non-gap net loss in the quarter was $1.3 million, and non-gap EPS was a $0.04 loss. Next, turning to the balance sheet and cash flow. Cash and cash equivalents at quarter end were $22 million, up from $13 million in Q2, driven by the $10 million micron convertible note. Q3 marks the third consecutive quarter of growth in unrestricted cash and the highest level of unrestricted cash on the balance sheet since Q2 of last year. Net cash used in operating activities in Q3 was $0.8 million, our best result since the IPO and a sharp improvement from $5.5 million used in Q2 and $11 million used in Q1. Looking forward, we expect this momentum to continue. Now, turning to guidance. For Q4 2026, we expect Bookings of $21 million, plus or minus 10%, revenue of $22 million, plus or minus 10%, non-GAAP gross margin around 88%, non-GAAP operating expenses of $16 million, plus or minus 5%. We already see indications that Q4 will be strong. For example, revenue booked so far this quarter is already at a multi-year high for this point in the quarter. Looking into 2027, We expect to deliver mid- to high-teens revenue growth. Our confidence is driven by our growing pipeline, strong early customer feedback on our agentic offerings, continued proliferation of FTCO, and strong growth in the sale of our IP products. With that, operator, we will now take questions.

Conference Operator | Operator:

Thank you. At this time, we will conduct a question and answer session. To ask a question, you will need to press star 111 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. Our first question comes from the line of Craig Ellis of B. Reilly Securities. Your line is now open.

Craig Ellis | Analyst, B. Riley Securities:

Thank you for taking the question and congratulations on the booking strength and the turnaround momentum, guys. Wally, I wanted to start with you, encouraging to hear that As you look at 27, it feels like the business could grow mid to high teens. Can you just help us understand the relative strength of the three businesses in what you see right now, TCAD, IP, and the other businesses? EDA, thank you.

Wally Rhines | CEO and Director, Silvaco:

Yes. So the outlook for 2027, as you say, is looking very good, mid to high teens. and double digits for revenue growth. And it's coming strongly from the core business in TCAD. There's a lot of underlying strength, new customers, FTCO growing. It's also helped along by the continuing IP business. The surprise to us really is that EDA, which we expected to be really pretty flat, is actually improving, driven by products like Jabarro Pro.

Craig Ellis | Analyst, B. Riley Securities:

A follow-up there before I ask one to Chris. What do you think is really driving the Jabarro Pro strength? Because that was really a call-out in the quarter in terms of its booking momentum.

Wally Rhines | CEO and Director, Silvaco:

Yeah, it's been a real, I guess, momentum builder during the quarter. The sales organization has just found some very significant customers, tier one kinds of semiconductor companies who have realized the value. So they've gotten very excited. Dave Dutton, our new sales manager, has put emphasis behind it. We've provided some support and it's started to spread. It's one of these things that goes viral. a few salespeople start realizing success. Salespeople like to generate commissions and so all of a sudden customers that we thought would be small users are becoming bigger users and new customers who we didn't expect to adopt this quickly are now doing so. So it's a very pleasant surprise.

Craig Ellis | Analyst, B. Riley Securities:

Great to hear. And then, Chris, the follow-up for you is on operating expense. So you've done a really good job bringing operating expense down. I see that they're up in the fourth quarter. Is that performance-based comp on the real strong revenue growth or what's happening there? And in a year like 27 where revenues grow mid to high teens, what should we expect for operating expense?

Chris Zegarelli | CFO, Silvaco:

Great question, Craig. Thanks so much. So what's driving the sequential growth in OpEx? I think you're exactly right. It's incentive and commission-related items in Q4 based on strength in the underlying business. That's a piece of it. Another piece is, you know, we had some IEP milestones push out of Q3 into Q4, and they do carry some OpEx with them. So the timing element is contributing to the increase in Q4 as well. As we look at 2027, Craig, you're spot on. We want to make sure we're driving leverage in the model. So while revenue is looking like it'll grow mid to high teens, as we said, you can expect much lower year-on-year growth in OpEx overall so that we're delivering leverage to the bottom line as we grow. So we're going to stay diligent on the spending items. It does grow year-on-year, but not nearly as much as revenue does.

Craig Ellis | Analyst, B. Riley Securities:

So a half to a third of revenue growth is at a reasonable starting point?

Chris Zegarelli | CFO, Silvaco:

Yep, that's reasonable, Craig. Thanks.

Craig Ellis | Analyst, B. Riley Securities:

Thank you, guys. Good luck. Okay, thanks.

Conference Operator | Operator:

One moment for our next question. Our next question comes from the line of Kevin Garrigan of Jeffries. Your line is now open.

Kevin Garrigan | Analyst, Jefferies:

Yeah, hey, Wally and Chris, let me echo my congrats. Hey, on the FTCO customer, can you just give us a sense of which semiconductor vertical the customer is in and help us size the engagement? How does it kind of compare to the size of your other FTCO customer?

Wally Rhines | CEO and Director, Silvaco:

So this is sort of a change. I know you've heard us in the past say, well, customers come on slowly and they buy a little initially and then it grows. This is one. It's a semiconductor related that Company, a true tier one, very large company, but it's one that is taking a big dive, and they are, as you saw, the bookings were substantial, bookings of $10.3 million, and there will be revenue to follow there, so they will be a significant user. Not all of our FTCO customers ramp that quickly, but this one is.

Kevin Garrigan | Analyst, Jefferies:

Okay, perfect. And then Chris, one for you. So, you know, you said Q3 revenue came in below the midpoint because, you know, some things got pushed from Q3 into Q4. Can you just quantify for us how much revenue was pushed from Q3 into Q4 and what segment that was in? And then if that didn't happen, would Q3 have been profitable?

Chris Zegarelli | CFO, Silvaco:

Good question. The pushouts were on the IP side. There are some engagements on the IP front that are milestone driven, and when the milestone pushes out, the associated revenue with that milestone pushes out as well. We didn't see those push out. It would have been very close to profitable or break even on the quarter. What you're going to see in Q4 is, you know, a pretty big strong growth in operating income driven by the move of revenue up to $22 million, you know, even with the increase in OpEx as we talked about. You'll see good leverage there. We should be profitable on the year from a non-GAAP perspective, which is encouraging as well, and looking at more leverage going into 2027 as well, driven by top line growth and continued tight management of operating expenses.

Wally Rhines | CEO and Director, Silvaco:

Okay, perfect. Thanks, guys. Thanks. Thank you, Kevin.

Conference Operator | Operator:

One moment for our next question. Our next question comes from the line of Krish Sankar of TD Kellan. The line is now open.

Robert Mertens | Analyst, TD Cowen (on behalf of Krish Sankar):

Hi, this is Robert Mertens online for Krish. Thanks for taking my questions. I guess just going to one of the initial questions in terms of the outlook for next year, it sounds like EDA could be up a little bit. And then just in terms of the scale of the business, TCAD would maybe be the larger driver there. Similar to calendar year 26, would you still expect SIP to be the fastest grower? There's three divisions or is 26 really helped by the compares against the prior year?

Wally Rhines | CEO and Director, Silvaco:

Well, both of them are good growers. Relatively, I'm not sure actually. Chris, do you have an estimate on that?

Chris Zegarelli | CFO, Silvaco:

Well, I think the short answer is we see there's good growth potential in both, Wally. I mean, those are kind of the two of the strongest growth elements going into next year. I mean, you heard the momentum on the FTCO side, which is encouraging and should continue. But we're also looking at good continued growth on the IP front. As Wally pointed out in his prepared remarks, that was a business that was running mid-single digits a year, annualized about a year ago, looking to get into 20 this year. And I can tell you the team is not satisfied even getting to 20. They are looking at driving more growth up and to the right. It has a lower base than TCAD does, so maybe it grows a little faster from a percentage perspective, but both have a really good, strong outlook, which is contributing to getting us into that mid to higher teen growth rate next year.

Robert Mertens | Analyst, TD Cowen (on behalf of Krish Sankar):

Great. Thanks. That's helpful. And then just one more, if I may, just on the FTCO side. for next year. Is there any way to sort of triangulate where the growth is coming from? Would you expect just expansion at your core Micron business being sort of the major driver there? Is it actually ranking with the new customers that you've talked about the last few quarters?

Wally Rhines | CEO and Director, Silvaco:

Well, I think our emphasis is new customers. We're working on a number of them. As you mentioned, Micron has been a good customer and has been in deployment and has lots of licenses, but that Really, the big opportunity, I think, comes from new ones like the one we showed this quarter, which has the potential to be as big or bigger than Micron. I think they're more like that, and I think we'll see them coming in maybe a little irregularly, but steadily over the next year or two years.

Wally Rhines | CEO and Director, Silvaco:

Great. Thank you. Appreciate it. Congrats on the quarter. Thanks.

Conference Operator | Operator:

One moment for our next question. Our next question comes from the line of Christian Swab of Craig Hallam. Your line is now open.

Ben Taxel | Analyst, Craig-Hallum:

Hey, guys. This is Ben Taxel on for Christian here. Great work, guys. Great guide. I just had – you know, you guys were always kind of calling for Q4 to be a record and, you know, double-digit next year. So his – This Q4 guy now seems even higher than expectations in 27. So is this all mainly developments in between this earnings call or last earnings call, or was this kind of always the expectation?

Wally Rhines | CEO and Director, Silvaco:

Well, we indicated in the last earnings call that we thought that the back half of the year was going to be strong. What we have now is we're halfway into the fourth quarter. As Chris noted earlier, The amount already booked is substantially above trend, and we have a funnel we can track where we know basically the kinds of numbers customers are interested in and where the range is and what's likely to go up and where there's any risk. So greater visibility since the last call, but we've had an indication that Q4 was going to be record revenue for a number of weeks now, and I think we feel stronger than ever.

Ben Taxel | Analyst, Craig-Hallum:

Perfect. That's all I got. Very helpful. Thanks, guys. Okay. Thank you.

Conference Operator | Operator:

One moment for our next question. Our next question comes from the line of Blair Abernathy of Rosenblatt Securities. Your line is now open.

Blair Abernathy | Analyst, Rosenblatt Securities:

Hi, guys. Nice quarter.

Wally Rhines | CEO and Director, Silvaco:

Thanks, Blair.

Blair Abernathy | Analyst, Rosenblatt Securities:

Just a couple things for me. Just to clarify, Chris, the milestones that weren't met for these IP deals that weren't able to be recognized in Q3, were those customers that didn't make the milestones? It wasn't something within your control? Is that the right way to look at it?

Chris Zegarelli | CFO, Silvaco:

Yeah, that's fair, Blair. I mean, a lot of these milestones are deal specific, but no, it wasn't. It was just kind of where the milestones are landing is what I would say. Nothing more than that.

Blair Abernathy | Analyst, Rosenblatt Securities:

Right. Okay.

Chris Zegarelli | CFO, Silvaco:

Okay.

Blair Abernathy | Analyst, Rosenblatt Securities:

and the RPO at the end of the quarter is at 53 million. Is that the right number?

Chris Zegarelli | CFO, Silvaco:

Yeah. And then you'll find that in the supplemental materials online. Go ahead. Sorry.

Blair Abernathy | Analyst, Rosenblatt Securities:

Yeah. And that's the growth. So it's pretty good sequential growth. Is that what was driving that?

Chris Zegarelli | CFO, Silvaco:

Well, I think it's timing and mix. I mean, you saw we put up good bookings in Q3, but revenue is a little below expectations. And so you're seeing a very strong revenue view into Q4. and so some of that is just timing issue being recognized in Q4, for example. That should bring it down to more historical ranges.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay, great. And then just Wally on the FTCO. So this new Tier 1 customer that has signed on with you, maybe you could just give us some sense of how this came about. Is this something that happened rather rapidly or just trying to get a sense of the and I guess this is what your fifth FTCO customer, is that right?

Wally Rhines | CEO and Director, Silvaco:

Yeah, that we have disclosed since I moved into the position. I think we had Micron before that and maybe some minor ones. This one is not just a blue bird overnight. We've been working on this for a while but the advantage in this case is we're able to run a lot of tests and show what could be achieved and so the actual amount increased substantially from where it started. If I just went back a quarter or two, we would not have expected this level of magnitude. And this is a customer. It's among the 10 largest companies in the world or in the US. So it's not a trivial customer. They have the ability to pay. They have the desire to achieve exceptional results. And it's just the evaluation went very, very well.

Blair Abernathy | Analyst, Rosenblatt Securities:

From your sense, a customer such as this, is this a recurring kind of revenue base that can be built up here over the next few years and there's an opportunity to expand from where you start out at?

Wally Rhines | CEO and Director, Silvaco:

Yes, absolutely. So it comes in two forms. One is as they start doing more and more, potentially they require more licenses. And then every time they do a renewal, they typically grow the total commitment for the next period of time. So yeah, I look for these to continuously grow over time. And as the results become more and more beneficial for them, then I think the enthusiasm grows and the chance to spread to other products, in this case, even spread into our EDA products at this customer. So the engagement alone creates relationships that allow us to introduce customers to other capabilities that they might not have thought of before.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay, great. And then just if I can on the IP side, you've had obviously great traction there this year. Your bookings have been up substantially over last year, particularly with Mixel. But just wondering, how are you thinking about the The sales team, the go-to-market effort you're putting forward there, is that something you'll be expanding next year? Just want to get a sense of how you're feeling about the opportunity set in IP.

Wally Rhines | CEO and Director, Silvaco:

Yeah, we will indeed. It's really remarkable what's been achieved in terms of the funnel growth with a very minimal sales force. Actually, just a few people generating most of the sales and that needs to be, I guess, corrected or expanded upon. And this is one of the priorities that Dave Dutton has. He's bringing in sort of making changes in the Salesforce to get better capabilities so we can interact with the customers more directly and become aware of more deals. I think because of our small size, there are a lot of opportunities we just hadn't seen before. and then you have, in addition, the reputation of Mixel. It's pretty remarkable. I don't know if you caught that a two nanometer design is pretty much the leading edge and you start doing those, people start paying attention. So I think Mixel has a lot of momentum and you put some sales behind it, I think it can grow very, very successfully.

Blair Abernathy | Analyst, Rosenblatt Securities:

Okay, great, thank you very much.

Wally Rhines | CEO and Director, Silvaco:

Yeah, thank you.

Conference Operator | Operator:

I'm showing no further questions at this time thank you for your participation in today's conference this does conclude the program you may now disconnect