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M31 Technology Q1 2026 Earnings Call Q&A Full Transcript

Speaker: Scott Chang, CEO

Q1: What were the primary drivers behind the significant revenue decline in March and the overall soft performance in Q1 2026? Was this due to project delays or weak market demand? Furthermore, do you anticipate a turnaround in Q2, and what data supports the full-year growth trajectory?

A: First, I want to acknowledge that our overall Q1 revenue performance fell short of market expectations, and we share the concern of our investors. The primary reason for the soft first quarter was indeed the delay of certain project orders. If you look at our historical seasonality, Q4 is traditionally a very strong quarter for us. Since M31 operates on a project-based model, Q1 is typically a transition period for aligning client demands and pipeline projects, which led to some short-term fluctuations.

However, as indicated by our April revenue figures, the business has already begun to recover to our expected levels. Therefore, I fully expect our overall revenue to regain its growth momentum starting in Q2 and continuing into Q3. We are currently seeing numerous market opportunities that can be fully supported by our existing IP portfolio. This gives us strong confidence, and our double-digit growth target for the full year remains unchanged. Our entire team is fully committed to achieving this goal.

Q2: Management has emphasized that monthly revenue volatility can be misleading. Does this mean current figures haven't reflected future growth? Which specific metrics should investors prioritize instead?

A: I would like to reiterate that because we are a project-based company, monthly revenue volatility—whether sharp declines or surges—can easily lead to market misinterpretations. When evaluating a pure-play IP provider like M31, it is more appropriate to evaluate our performance on a quarterly or semi-annual basis.

Beyond short-term license fees, a core metric that investors should closely monitor is whether our R&D investments over the past few years are translating into royalty growth as customers ramp up mass production. I believe long-term royalty accumulation is the most robust cornerstone of our future growth. For example, in Q1 of last year, we had zero royalty contribution from 3nm. However, through our strategic shift toward advanced nodes, we began to see royalty growth starting in Q4 of last year. By continuously optimizing our royalty structure and transitioning from traditional mature nodes to advanced nodes, the accumulation of client mass production volume will drive greater growth and become our most stable revenue foundation.

Q3: Could you share the revenue outlook for Q2? Which end-application products are expected to show

the strongest momentum?

A: My expectation for Q2 is to progressively recoup the delayed revenue from Q1. Given that our EPS was negative in Q1, our primary goal is to turn our EPS positive in Q2, thereby building stronger growth momentum for the second half of the year.
Regarding end applications, I personally believe that AI-enabled high-end consumer products will be the key driver for our future growth. Specifically, we have clearly observed this year that memory controller ICs, AI-related chips, and various High-Performance Computing (HPC) chips will be the crucial areas driving M31 IP adoption.

Q4: Aside from the 2026 outlook, could you share your insights into the operational outlook for 2027?

A: Despite Q1 falling short of expectations, we remain highly optimistic about our overall revenue for 2026. As our past strategic initiatives and client engagements begin to take effect, we are already seeing more potential opportunities in Q2.
Looking ahead to 2027, the 3nm to 16nm segment will be a highly critical growth engine for us, driven by robust client demand and continuous royalty accumulation. If we successfully reach our revenue and royalty targets in 2026, we will inevitably scale further in 2027. Our overall growth trajectory remains intact. The significant investments we've made in EDA tools and talent over the past few years will sequentially materialize into tangible growth momentum through 2028.

Q5: What is the expected growth for license fees and royalties this year? Is there a chance royalties could exceed 20% of total revenue, and what is the status of Foundation IP royalty contributions from the leading foundry?

A: Increasing our royalty contribution to over 20% of total revenue is a milestone our team continuously strives for. This is the primary reason why we aggressively expanded into advanced nodes over the past three years—to drive our overall revenue momentum.
For this year's target, we fully expect our full-year royalty share to officially surpass the 20% mark. As you may have noticed, since Q3 of last year, our royalty share in most quarters has already approached or exceeded 20%. As clients on advanced nodes sequentially enter mass production, royalty growth will lead the company's overall revenue. This includes not just Foundation IP, but also Interface IP adopted by key clients. Both IP product lines are equally critical and will generate greater royalty contributions going forward.

Q6: What are the major 2nm and 3nm collaborative projects currently underway? Have any 2nm IPs completed tape-out, and when will they contribute to royalties? Will the proportion of advanced node royalties continue to rise in 2026 and 2027?

A: We began dedicating significant resources to 3nm IP development in 2024 and successfully advanced to 2nm by late 2024. Based on these efforts, we expect to see robust growth momentum in 2026 and 2027. Currently, some clients have already completed 2nm tape-outs, and there is a possibility they will enter mass production as early as this year. We expect to see the initial ramp-up of 2nm royalties by late 2026 or early 2027 will be a major milestone for M31. Advanced nodes will be a crucial revenue driver for the company. The substantial EDA investment pressure we previously bore was specifically targeted at advanced node development, and those investments are now positioned to translate into future revenue growth.

Q7: Can you describe the company's current IP positioning in advanced nodes?

A: From the perspective of both Interface IP and Foundation IP, advanced node development is our top strategic priority. We use differentiated strategies: for the leading foundry in Taiwan, we closely align with their advanced node roadmap. However, for other foundries, we aim to demonstrate a more diversified portfolio, leveraging our proven mature IP to meet different needs. Regardless, for the next three to five years, advanced node development will remain our top priority, and we will continue to follow the leading foundry’s roadmap downwards.

Q8: What is the outlook for operating expense (OPEX) growth? How does cost control for EDA and headcount expansion differ this year?

A: While driving revenue growth, we are mindful of OPEX pressures. Therefore, strict cost control regarding R&D and operating expenses is a major focus for us this year. Barring special project requirements, our OPEX growth target for this year is to be kept under 10%.
Regarding EDA and headcount expansion: our massive early-stage investments in EDA have essentially concluded, meaning we won't need to incur aggressive expenditures on EDA resources as we did before. For headcount, we will adopt a highly cautious approach this year. We will not expand our workforce unless there is a clear project demand or a specific growth opportunity. We are fully committed to ensuring that the ratio of expense growth to revenue growth remains manageable and healthy.

Q9: Have we already invested in 1.4nm (A14) related processes? If not, when is this expected, and will EDA costs spike again at that stage?

A: Regarding 1.4nm (A14) development, as long as clients confirm they are moving to this node and the leading foundry supports us, we will absolutely advance without hesitation.
I know investors might worry about another spike in EDA expenses, but let me clarify that this will not happen. Because we fully adopted the GAA architecture when transitioning to 2nm, the investments and foundation we established can be smoothly scaled and transferred to A14 and even A12. Therefore, we will not see the severe expense spikes we experienced previously. We look forward to leveraging the tools and resources from our EDA partners to maximize the ROI of our past investments.

Q10: Could the CEO explain the necessity of the company's planned long-term fundraising and whether it will be a public or private offering?

A: This fundraising plan was discussed by the Board and is pending approval at the shareholders' meeting. If the proposal passes, we will share a more detailed plan.
From a long-term strategic perspective, I personally believe that building up capital reserves is necessary to achieve greater scale, such as expanding into diverse IP product lines and capturing future market opportunities. This is a holistic strategic consideration to accumulate future growth momentum. We will evaluate it very carefully and prudently and will not abuse this possibility.

Q11: Could the CEO provide an update on the progress of Memory Controller IC projects?

A: Memory Controller ICs are a major area of interest right now. Within our Interface IP portfolio—from USB and PCIe to the recently discussed UFS—we are continuously following the development trends in flash memory. Our collaborations with international leaders span the US, Taiwan, and China. Memory Controller ICs have consistently been a critical customer segment for us. Our primary objective is to help these clients shorten their Time-to-Market and significantly mitigate their development risks. As mentioned earlier, our IP development for 4nm and upcoming 3nm UFS interfaces is designed precisely to meet the strong demand in this space.

Q12: A major GPU company recently acquired an inference accelerator company and shifted orders to TSMC. Does this expand M31's market in advanced SRAM IP? Are chip architectures increasing embedded SRAM ratios to reduce reliance on external memory?

A: SRAM has always been a critical component for all SoCs. The demand for SRAM is massive across all types of SoCs. Particularly for the AI accelerators you mentioned, clients require extreme high performance while optimizing power consumption. The performance and power requirements placed on SRAM are exceptionally demanding.
Under this AI mega-trend, new architectures and design philosophies are indeed emerging. Beyond external memory like HBM or LPDDR, embedded SRAM is an absolutely vital domain. We have continuously invested in SRAM R&D and will align with our foundry partners' roadmaps to meet these requirements.

Q13: ARM's in-house CPU entry is coming out. What is the impact on M31?

A: I view this development as highly positive. We have maintained a deep, long-standing partnership with ARM. Many clients utilizing the ARM architecture still rely on M31 for custom SRAM tuning or performance enhancements for their CPUs.
Furthermore, as ARM begins designing its own chips, they will also need to source external Interface IPs or Logic IPs. This effectively means we have gained a highly promising Tier-1 customer. Whether ARM develops via a Design Service provider or leads the product internally, it will generate substantial collaborative opportunities for M31.

Q14: What is the progress with US IDM/foundry clients, and what is the mass production schedule for the North American AI wearable product?

A: We are aware of the focus on our collaboration with US foundries. Recently, there has been positive news regarding their progress in 2nm and other products. Following their roadmap, we are highly looking forward to initiating more concrete collaborations with them this year. Strategically, we expect to begin collaborating on relatively mature platforms before progressively penetrating their advanced platforms.
As for the North American AI wearable product, IoT and Edge AI devices have extremely stringent low-power requirements. Last year, we dedicated significant resources to helping this client develop on TSMC's Ultra-Low Power (ULP) platform. I expect our efforts this year to accelerate the product into mass production, which should bring meaningful royalty contributions to the company.

Q15: Have we seen actual clients enter the mass production stage on advanced nodes like 3nm and 5nm, or are they still at the licensing fee stage?

A: Our investments in advanced node development do require a relatively long lead time. However, based on our actual royalty generation over the past few months, we have indeed seen clients progressively transition into the mass production phase.
Moreover, this is not limited to major US players; we are also seeing meaningful progress among our clients in the Asian region. I firmly believe that in the broader advanced node segment—loosely covering 2nm to 8nm—once clients sequentially ramp up volume, it will generate substantial and long-term royalty accumulation. We expect our strategic positioning from the past few years to yield fruitful results over the next two years.

Q16: Could you share your view on revenue contributions from the China region this year and the global project intake status for Foundries across different regions?

A: Despite geopolitical complexities, the revenue contribution from the China market remains vital. In Q1, China accounted for a high proportion of our revenue, and project initiations there are robust. This is attributed to our comprehensive IP portfolio built from 5nm down to 22nm. As long as we can demonstrate that our high-quality IP meets their mass production needs, I am confident the China region will continue to deliver stable revenue growth.
Regarding Foundry project intake: we have multiple mature-node and newly established foundries in China initiating discussions with us. Taiwan remains our home base and our primary client demographic, and collaborations here will continue to deepen. Meanwhile, we are actively expanding our partnerships with various foundries in North America. The foundry projects secured this year will lay a critical foundation for our future Foundation IP development and subsequent royalties.

Q17: What are the application areas for advanced node IPs, and do you foresee which area will contribute the most significantly to revenue in 2026?

A: Both Foundation IP and Interface IP provide us with immense competitive advantages on advanced nodes. As I mentioned earlier, we are operating in an "AI Everywhere" environment, where almost every SoC incorporates AI computing elements to address diverse applications.
Personally, I am very bullish on developments in HPC, consumer electronics, automotive, and humanoid robots in 2026. For a pure-play IP company, the “breadth”of application is critical from a strategic perspective. If our IP only satisfied a single HPC segment, the concentration risk would be high. Conversely, if our IP possesses strong versatility and is widely adopted across diverse domains, this comprehensive market penetration provides the

most significant and sustainable revenue stream. This remains the ultimate goal for our entire team.