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M31 Technology Q3 2026 Earnings Call Q&A Full Transcript
Speaker: Scott Chang, CEO

Q1: Could management comment on the key operating priorities and growth drivers for 4Q26? Given that year-to-date EPS remains negative, what is management's view on full-year EPS and revenue growth? Will operating expense growth be kept below 10% this year?

A: Although cumulative EPS for the first three quarters remains negative, the fourth quarter has historically been a stronger period for us. Our current objective is to achieve back-end loaded growth for the year and meet our revenue targets. We remain confident in achieving a positive full-year EPS and are fully committed to reaching that goal.

Regarding new process-node projects, as our business continues shifting toward advanced-node opportunities, customers are naturally taking longer to make project decisions. Nevertheless, supported by collaborations with North American foundries, fabless customers, and global ecosystem partners, we expect full-year revenue to grow compared with last year. We are determined to achieve positive full-year EPS while carrying that momentum into next year, when royalty contributions are expected to ramp and become an important inflection point for our recovery and growth.

Q2: After returning to profitability in 3Q26, can M31 sustain profitability in 4Q26? Was the turnaround a one-off event or a genuine business inflection point?

A: The R&D investments we have made in advanced technologies are beginning to generate tangible results. Going forward, the key question is whether royalty accumulation can become the foundation of our long-term growth.

To achieve our target of positive full-year EPS, we must continue delivering quarterly profitability in the fourth quarter. As advanced-node royalty programs gradually begin contributing next year, they will provide a solid foundation for future operations.

We believe we are approaching a meaningful turning point and expect to demonstrate more stable operating performance beginning next year.

Q3: Could management share its outlook for 2027 and 2028, including revenue growth, operating margin expansion, expense control plans, and profitability development?

A: Royalties from advanced-node programs that we have been cultivating for many years are expected to enter a meaningful monetization phase in 2027 and 2028.
We are closely monitoring customers' progress toward mass production for 2nm, 3nm, and 4nm/5nm projects. Overall, we remain optimistic and expect operating results to improve progressively throughout 2027 and 2028.
Regarding R&D spending and workforce management, expenses increased substantially over the past two years due to EDA tool licenses and headcount expansion. Beginning this year, we have implemented tighter controls. Our goal is to keep annual expense growth around 10%, or only slightly above that level, while maintaining a global workforce of approximately 400 employees.
As revenue scales and expenses remain under control, operating margins should continue to improve.

Q4: How does management view the long-term growth outlook for license revenue and royalty revenue, including expected growth rates, revenue mix, key process-node drivers, and seasonality trends?

A: From a revenue structure perspective, our goal is to maintain approximately 10% annual growth in license revenue while targeting royalty growth of more than 30%, which would enhance both revenue quality and profitability.
In terms of process technologies, future growth will be concentrated in advanced and process nodes at and below 16nm.
We also plan to leverage AI technologies internally to improve R&D productivity and reduce development errors, thereby helping improve operating margins.
As for seasonality, we still expect second-half revenue to exceed first-half revenue. However, our goal is to achieve a healthier and more balanced revenue distribution, gradually moving toward a 45:55 first-half versus second-half mix.

Q5: What is the latest progress on the 2nm projects? Are customer engagements on TSMC's N2/GAA platform progressing as expected?

A: The 2nm node sits at the very top of the semiconductor technology pyramid, and the number of companies capable of adopting it remains relatively limited.
The encouraging news is that our leading customers continue to develop products using 2nm and even more advanced A14 platforms. In addition to TSMC-related opportunities, we have also made progress on 2nm-related opportunities with other foundries.

For leading-edge processes at 2nm and below, our engagement model differs from the traditional approach of developing a broad portfolio of IP before waiting for customer adoption. Instead, we work directly with leading customers through early engagement and co-development programs.
This approach allows us to develop solutions according to actual customer requirements and validation schedules, enabling more precise control of development costs while avoiding excessive upfront IP investment.

Q6: Previous earnings calls indicated that royalties from a North American 2nm fabless customer could begin contributing around late 2026 to early 2027. Is the project still on track?

A: The actual timing still depends on the customer's production ramp schedule.
Based on current information, the customer is actively preparing for volume production, and we are hopeful that royalty contributions could begin as early as the first quarter of 2027.

Q7: Given the growing number of 2nm, 3nm, and A14 projects under development, will 2027 represent a major turning point for advanced-node royalties? What impact could this have on operating margins?

A: If these advanced-node projects continue progressing as expected and customers move into production as planned, 2027 will indeed represent an important inflection point as royalty contributions increase meaningfully. As royalty revenue, which carries significantly higher margins, becomes a larger portion of total revenue, it should provide a very meaningful and positive improvement to operating margins.

Q8: With AI inference and custom silicon demand increasing, where does M31 see opportunities in the AI era? Are there any recent AI-related customer projects or products? Roughly what portion of revenue is AI-related?

A: Virtually all new customer engagements and projects currently under discussion are closely tied to AI applications. AI has become deeply embedded across nearly all categories of chip design.
Even in mature process nodes such as 22nm, customers are integrating small language models into their products and demanding increasingly stringent low-power capabilities.
In particular, demand for low-power and high-speed connectivity IP has been rising rapidly in humanoid robotics and smart connectivity applications.
We believe AI will become one of the most important drivers of M31's future revenue growth.

Q9: Market speculation suggests that certain competitors have secured multi-tens-of-millions-of-dollar 2nm AI projects. Is M31 participating in similar opportunities? What challenges does M31 face when pursuing large 2nm projects?

A: The business model for pure IP licensing is fundamentally different from ASIC development, including pricing structures and monetization methods. IP enjoys high reusability and long-term monetization potential.
At sub-2nm nodes, project sizes become significantly larger and increasingly dependent on advanced packaging technologies. Customers are typically major IC design companies.
In addition to maintaining our broad base of small and medium-sized customers, we have successfully entered advanced-node collaborations with leading mobile SoC vendors and high-end networking semiconductor companies.
At TSMC's Open Innovation Platform (OIP), Broadcom once shared its journey from being a technology follower to becoming an early adopter. That is also a path we aspire to follow.
We will continue strengthening partnerships with foundries and major customers while providing highly reliable IP solutions.

Q10: Could management comment on project activity at 6nm and below, key applications, customer geographies, and recent progress in optical communications and AI server opportunities?

A: Demand for 6nm and more advanced process nodes remains very strong.
Applications span high-speed storage, edge AI, humanoid robotics, and other emerging computing platforms.
In optical communications and AI server markets, we are actively investing in point-to-point SerDes technologies, including PCIe 6.0 (64G) and 112G connectivity solutions, as well as optical module IP.
We are also monitoring OCI (Optical Circuit Interface) technologies within the Co-Packaged Optics (CPO) ecosystem.
Furthermore, AI servers and high-performance computing devices require significant amounts of SRAM. To address this opportunity, we are expanding our customized SRAM capabilities to meet growing demand for both high-speed connectivity and customized memory solutions.