**December 1, 2022 1:30PM PST**

**Ambarella Q3 Fiscal Year 2023 (October 31, 2022) earnings call script**

**Louis Gerhardy, VP Corporate Development**

Good afternoon and thank you for joining our third quarter, fiscal year 2023, financial results conference call. On the call with me today is Dr. Fermi Wang, President and CEO, and Brian White, CFO.

The primary purpose of today's call is to provide you with information regarding the results for our third quarter of fiscal year 2023. The discussion today and the responses to your questions will contain forward-looking statements regarding our projected financial results, financial prospects, market growth and demand for our solutions, among other things.

These statements are subject to risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize or should our assumptions prove to be incorrect, our actual results could differ materially from these forward-looking statements. We are under no obligation to update these statements.

These risks, uncertainties and assumptions, as well as other information on potential risk factors that could affect our financial results, are more fully described in the documents that we file with the SEC, including the Annual Report on Form 10-K that we filed on April 1, 2022 for fiscal year 2022 ending January 31, 2022 and the form 10-Q filed on September 8, 2022 for the second quarter of fiscal year 2023.

Access to our third quarter, fiscal 2023, results press release, transcripts, historical results, SEC filings and a replay of today's call can be found on the Investor Relations page of our website.

Fermi will provide a business update for the quarter, Brian will review the financial results and outlook and then we will be available for your questions.

**Dr. Fermi Wang, President & CEO**

Good afternoon, thank you for joining our call today.

Q3 was mostly as expected. While there are material headwinds from an industry-wide semiconductor cyclical downturn, there is no change in our very favorable secular growth outlook for the opportunity enabled by our edge AI endpoint investments. During Q3, in four key ways, we demonstrated significant progress to develop these opportunities.

First, our positive market development momentum continues, highlighted by the November 18th announcement from Continental AG that after a multi-year evaluation, they became the first to integrate our CV3 SoCs into their ADAS product line-up.

Second, our six-year automotive revenue funnel increased about 28% from the $1.8 billion announced a year ago. This funnel is predominately driven by our computer vision and domain controller SoCs, and it is important to note our automotive SAM over the same period is still 10x the size of this new automotive funnel, so there is plenty of headroom for share gains.

Third, our content in our customers' products continues to rise as we leverage our historical success with optimized processing for high bandwidth sensing. This is demonstrated by a total blended SoC ASP we estimate will increase about 20% this year. Furthermore, we expect our new SoCs, like CV3 and CV5, to command significantly higher ASPs.

Fourth, we are on-track to reach our goal for CV to be 45% of our total revenue this year, and with a strong Q4 CV run-rate, CV revenue is expected to post strong growth in fiscal 2024 and become a larger portion of our mix.

Now I will provide some examples of our market development activity.

On November 18th, German automotive tier-1, Continental, announced that it will offer Advanced Driver Assistance Systems based on our CV3 AI domain controller SoC family. Our high-performance, power efficient and scalable SoC portfolio, built for ADAS and autonomous applications, complements Continental's solutions for assisted driving and further advances vehicle automation.

The joint solution, with its centralized, single-chip architecture, enables the next generation of vehicles to more quickly perceive environmental conditions by processing multiple sensor inputs, simultaneously. Supported sensing modalities include high-resolution cameras, radars and lidars, as well as ultrasonic sensors. Our integrated SoC enables the early fusion of raw sensor inputs, wherein the data from different sensors is combined for advanced vehicle automation.

The high scalability of our CV3 SoC family allows vehicle manufacturers to choose the optimal performance level for their system requirements, while using the same vehicle architecture. Additionally, this joint solution's low power consumption reduces cooling requirements, making sustainable energy savings possible, while also reducing system costs. Continental's ADAS solutions with integrated Ambarella SoCs will be showcased for the first time at CES 2023 in Las Vegas.

Also during the quarter, we announced another win in Japan with Toyota who began shipping its Yaris and Yaris Cross models, featuring a Gentex  auto-dimming mirror with integrated digital video recorder. Based on Ambarella's A12 automotive SoC, the dual channel video recorder features both front and rear facing cameras as well as an app that allows consumers to pull recorded video directly to their phones.

Mercedes Benz began shipment of vehicles in China and Korea with a car recorder from Korean tier 1 supplier Mobile Appliance. Based on Ambarella's H22, the car recorder includes both an Ultra-HD front camera and a QHD rear camera.

In November we announced that China-based INVO Tech is in mass production with a driver and occupant monitoring system that is being delivered to GAC for inclusion in its Emkoo SUVs. This system uses a single CV25AQ AI SoC, and integrates one 2MP driver monitoring camera and three 2MP occupancy monitoring cameras.

I am also pleased to announce that our CV25 automotive AI SoC has been chosen for a driver monitoring application at a major Korean automotive OEM, with production expected to begin in 2023. The CV25 was chosen for its highly efficient neural network processing combined with very low power consumption.

I will now talk about some of our customer developments in the IOT space, starting with the enterprise security camera market.

During the quarter Verkada announced its first multi-sensor camera, the CH52-E, which uses four Ambarella CV25S AI vision SoCs. The camera includes four independent 5 MP sensors to offer customers the wide coverage benefits of a fisheye camera along with the high-resolution, high image clarity of a dome camera.

Motorola Solutions has made a number of acquisitions of video security companies over the last two years, with many using Ambarella SoCs. At the GSX security show in September, Motorola announced its new AVA Flex camera based on Ambarella's CVflow AI vision SoCs. The AVA Flex includes WiFi connectivity and cloud-based video management for ease of deployment, while supporting AI features such as occupancy counting and anomaly detection.

Also at the GSX show, Korean security leader Hanwha Techwin introduced multiple cameras based on Ambarella's CV2 AI vision SoCs, including new P series dome cameras with dual 6M-pixel imagers and AI features and new T series cameras including vandal proof and bi-spectrum AI thermal models.

Other Korea-based customers introducing new models during the quarter included IDIS introducing new cameras for license plate recognition based on our CV28S entry level AI SoC, and Digital Watchdog introducing 5M pixel and 4K dome models based on our CV22 AI vision SoCs.

In September, Xiaomi launched its latest battery powered smart door lock featuring 3D structured-light facial recognition. The smart lock unlocks using 3D biometric facial recognition in less than 1 second with Ambarella's CV28M AI vision processor performing both the face recognition and 3D structured-light processing. The facial smart lock is also BCTC certified, which meets all the security requirements for financial transactions in China.

In the consumer camera category, Insta360 introduced its X3 360-degree camera. Based on Ambarella's H22 SoC, the camera includes 5.7K active HDR video, 72MP photos, and AI-based editing.

We are also seeing opportunities in next generation AI featured video conferencing applications, both for home and commercial use.

In China, H3C introduced its Magic Hub conferencing system featuring an 8K camera and 8K large screen display. The camera is based on our CV52 AI SoC and supports ultra-wide angle video capture and advanced AI features.

In the streaming camera market, Elgato, a unit of Corsair, introduced its Facecam Pro based on our H2 video processor. The facecam Pro features 4Kp60 video and advanced features such as pan tilt zoom making it ideal for gaming applications as well as solo and group video conferencing.

Ambarella is also in the process of strengthening its eco-system of design and development partners to address new markets and expand our customer base. In November we announced a comprehensive relationship with eInfochips, an Arrow Electronics company, to expand design and development services for the next generation of CVflow-based AI cameras. This leverages eInfochips' extensive engineering experience and resources to support the rapid growth of AI IoT applications, including those in robotics, access control, video conferencing and health care markets.

These representative engagements, a majority of which are based on our higher value CV SoCs, provide insight into the early and continued success of our strategy. In Q4 alone we expect to ship about 2 million CV2 family SoCs, and the outlook for the CV2 family remains very positive. Now with CV3 and CV5 we are establishing new CV product cycles building upon our proven CV2 family and further expanding the functionality and value, or ASP, we can earn. Continental was early and the first to validate this new CV wave from Ambarella, and in the next several quarters we anticipate sharing more about our customer progress.

CV3, in a single SoC, synergistically ties all the functionality Ambarella has established over the years; camera and radar perception, deep learning AI, and software stack IP. It began 18 years ago when we established our camera perception processing reputation, and we are now addressing higher value edge AI opportunities, serving megatrends such as security, safety and automation. These machine sensing opportunities are incremental, and much larger than the human viewing market.

So we see a very favorable secular opportunity in place, we have the right strategy to address it, and we are continuing to demonstrate early signs of success. We intend to continue to invest a majority of our R&D to fully realize these market opportunities leveraging our leadership position in the AI endpoint market.

With that, Brian will now provide our prepared financial comments.

**Brian White, CFO**

Thanks Fermi. I'll review the financial highlights for our fiscal third quarter and provide a financial outlook for our fourth quarter, ending on January 31, 2023.

I will be discussing non-GAAP results and ask that you refer to today's press release for a detailed reconciliation of GAAP to non-GAAP results. For non-GAAP reporting, we have eliminated stock-based compensation expense and acquisition related costs adjusted for the impact of taxes.

Revenue for fiscal Q3 was $83.1 million, in line with the mid-point of our prior guidance range, up 3% from the prior quarter and down 10% year-over-year. Both IoT and Auto product revenue increased sequentially. Kitting issue constraints improved. However, customer inventory reduction actions resulted in sub-seasonal revenue results as we had expected.

Non-GAAP gross margin for fiscal Q3 was 63.5%, in line with our prior guidance range of 63% to 64%.

Non-GAAP operating expense for the third quarter was $43.5 million, a decrease of 1% from the prior quarter and below our prior guidance range of $44 million to $46 million. The lower than forecasted OPEX was aided by favorable FX impacts on our foreign spending.

Q3 net interest and other income was $1.4M comprised of approximately $800 thousand of interest income plus $600 thousand of other income.

Our non-GAAP tax provision was $1.2 million, or 11.4% of pretax income. This was higher than our original forecast, and typical range, primarily due to taxable FX gains in foreign jurisdictions.

We reported Non GAAP net income of $9.5 million or $0.24 per diluted share.

**Now I'll turn to our Balance sheet and Cash Flow**.

Fiscal Q3 cash and marketable securities increased $1 million to $199 million. DSO increased from 43 to 54 days, driven by the timing of revenue shipments, and days of inventory decreased from 125 to 124. Cash from operations was $6 million and capital expenditures for tangible and intangible assets were $5 million. Free cash flow, defined as cash from operations less CAPEX, was $1M. Free cash flow on a trailing 4 quarter basis was 12.5% of revenue.

We had 2 logistics and ODM companies represent 10% or more of our revenue in Q3. WT Microelectronics, a fulfillment partner in Taiwan that ships to multiple customers in Asia, came in at 62% of revenue. Chicony an ODM who manufactures for multiple IoT customers was 11% of revenue.

**I will now discuss the outlook for the fourth quarter of fiscal year 2023**:

Q4 is typically seasonally slow, down in the high single digits sequentially, but this year the alleviation of some supply constraints is releasing pent-up demand, which we expect to enable our revenue to remain approximately flat sequentially, in the range of $81 million to $85 million.

Looking into next fiscal year, industrywide component availability is anticipated to improve further, and as our lead times to customers continue to contract toward normal levels, we expect customers to continue reducing the amount of inventory they're willing to carry. Macro economic concerns are also rising at our customers. Considering these cyclical and macro inputs, we anticipate our fiscal 2024 Q1 revenue to be down more than our normal seasonality would suggest.

Back to our fiscal Q4 outlook, we expect non-GAAP gross margin to be between 63.0% and 64.0%, flat to the prior quarter.

We expect non-GAAP OPEX in the fourth quarter to be in the range of $46 to $49 million, with the increase compared to Q3, driven by the continued build out of new advanced CV3 SoCs and CES marketing activities.

We estimate net interest and other income to be approximately $700 thousand, our non-GAAP tax rate to be in the range of 5% to 10% and our diluted share count to be approximately 39.5 million shares.

Ambarella will be participating in Arete's Future Series Technology Conference on December 5th, NASDAQ's London Investor Conference on December 6th, Imperial Capital's Security Investor Conference on December 15th, and Needham's Growth Conference on January 10th. Sell-side analysts are also offering small group tours of our CES demos between January 4th and January 7th in Las Vegas. Please contact us for more details.

Thank you for joining our call today, and with that, I will turn the call over to the operator for questions.

**Q&A**

**Dr. Fermi Wang, President and CEO**

Thank you all for your time and consideration, we hope to see you at CES or one of the other upcoming events, goodbye.