Q3 FY2022 (October 31, 2021) earnings call script for November 30, 2021 1:30PM PST

Louis Gerhardy, Corporate Development

Good afternoon and thank you for joining our third quarter, fiscal year 2022, financial results conference call for the three months ending October 31, 2021. With me on the call today is Dr. Fermi Wang, President and CEO and John Young, VP Finance.

The primary purpose of today's call is to provide you with information regarding the results for the third quarter of our fiscal year 2022.   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 filed on March 31, 2021 for fiscal year 2021 ending January 31, 2021 and the form 10-Qs filed on June 8th and September 8th of 2021, for the first and second quarters, respectively, of fiscal year 2022. Access to our third quarter fiscal 2022 results press release, historical results, SEC filings, a transcript of our prepared remarks and a replay of today's call can be found on the Investor Relations portion of our website.

Fermi will begin the call with a business update, John will review the financial results and then Fermi, John and I will be available for your questions.

With that I will turn it over to Dr. Fermi Wang…

Dr. Fermi Wang, President & CEO

Good afternoon

Before proceeding with our Q3 F2022 call, I want to note on November 9th we filed an 8K stating that our CFO, Casey Eichler, would be taking a leave-of-absence for health reasons. We have received many of your kind thoughts and prayers, which we have shared with Casey and his family, and we wish him a speedy recovery. Meanwhile, John Young, VP Finance, has been named interim principal financial officer and principal accounting officer during Casey's absence.

On October 26th our strategic transformation into a deep learning AIoT processing company took another leap forward when we announced the acquisition of Oculii a provider of advanced algorithms for imaging radar systems. Oculii enables us to not only capture incremental perception business, but most importantly feeds our long-term strategy to provide a more comprehensive AIoT processing SoCs to our customers.

I'm also pleased to report our market and financial momentum was strong in Q3, with revenue slightly above the high-end of our range of guidance, up 64% year-over-year. Driven by a richer mix of CV SoCs, our average selling price continues to rise, contributing to strong positive operating leverage with non GAAP operating margins reaching 25% of revenue versus 5% a year ago.

Supply dynamics remain a key challenge. On one hand we started to see an expected recovery in supply from Samsung's wafer fab in Texas, however the shortages of other companies components has become a more significant and a gating factor to our results and outlook.

Despite these constraints, we are on track to achieve record revenue this year with CV representing more than 25% of revenue. During Q3 the number of unique CV customers in production grew sequentially and quadrupled versus a year ago. As of today, on a cumulative basis, we have shipped more than 5 million CV SoCs including more than 1 million into the automotive market.

Our automotive revenue funnel is expanding, a year ago we announced a six-year, discounted, automotive revenue funnel of about $600 million, and using the same methodology, this figure has approximately tripled. We will provide more details on January 4th at our Capital Markets Day.

I will now provide you with some examples of progress in our target markets:

During the quarter we were excited to see that Rivian, the American electric vehicle maker, started customer deliveries of its R1T truck. The R1T's Driver+ features 11 cameras, 5 radars and 12 ultrasonic sensors to deliver true hands-free driving assistance along with a full set of safety features. The R1T's Driver+ system utilizes multiple CV2AQ CVflow automotive SoCs for its AI vision processing. Additionally, the R1T also uses Ambarella's CV22AQ CVflow automotive SoC for its surround view camera processing and gear guard security system.

The Rivian design highlights the use of Ambarella's AI vision SoCs in centralized automotive computing applications. These applications represent a major new opportunity for Ambarella moving forward.

During the quarter, Chinese truck maker Shanqi entered into mass production with an ADAS system providing lane detection and forward collision warning features. The system is based on Ambarella's CV22AX automotive AI SoC and is supplied by tier 1 Baolong.

In the after-market automotive dash camera market, European market leader Nextbase announced a pilot program with Uber for its 232GW dash cam. The dual camera design is based on Ambarella's A12 SoC and includes a Cabin View Camera that uses infra-red night vision technology and wide angle 140° angle lens to provide an extra level of security for Uber drivers and riders.

Also in the dash camera market, Korean market leader Thinkware introduced its QXD7000 and QXD5500 HD designs based on Ambarella's H22 and A12 automotive SoCs. The QXD7000 includes a radar support mode that helps to pre-record video 10 second before impact, while both models offer ADAS features including forward collision warning, forward vehicle start alert and lane departure warning.

In the professional IP security camera market we continue to enjoy strong revenue growth based on worldwide market expansion and our increasing market share outside of China.

In Europe, market leader Axis, a unit of Canon, announced its first cameras to use Ambarella's CVflow SoCs. The new M series cameras offer great image quality even in challenging light conditions, and take advantage of analytics based on deep learning on the edge.

Verkada, based in the U.S., is simplifying the management of video security at scale through its hybrid cloud approach and its latest CD62 4K Dome security camera features intelligent edge-based video analytics, powered by Ambarella's CV22 CVflow edge AI SoC. The camera requires no DVR, NVR or server and uses onboard video storage and camera-based analytics processing for nearly instant results.

Also industrial giant Johnson Controls, introduced its Illustra Pro Gen 4 mini-dome, indoor and outdoor PTZ models with resolutions up to 8Mpixel and based on our CV22 SoCs. With built-in AI based object classification, the cameras enable events to be narrowed to different classes including person, car, bus and motorcycle.

In Korea, market leader Hanwha Techwin introduced multiple camera models spanning dome, bullet, panoramic and license plate recognition designs and leveraging Ambarella's CV2 and CV22 CVflow SoCs. Also in Korea, IDIS introduced four new cameras based on our S3L SoCS, replacing HiSilicon designs, while CPRO introduced its first 4K AI camera based on our CV22 SoC.

In November, Chinese electronics giant Xiaomi introduced a new line of multi-functional, smart door locks with facial recognition, using Ambarella's AI vision SoCs. The smart door locks fuse structured light and RGB camera technology and AI-based facial recognition software for hands free access, while also incorporating other unlocking methods including fingerprint recognition and near field communication.

From these customer engagements, you can see the breadth of AI applications emerging, ranging from L2+ ADAS in EVs with a leader like Rivian, to enterprise class security cameras with an industrial giant like Johnson Control, and door locks with sensor fusion for the smart home and enterprise market with a major company like Xiaomi. This traction can be traced back to the premium growth R&D investments we have, and will continue to make, into camera and radar perception technologies, automotive functional safety (such as ASIL B or D) and next generation AI processors on 3 and 4 nanometer manufacturing process nodes, all optimized specifically for IoT end point applications.

In fact, in the last 3 years Ambarella invested 59% of revenue into R&D on a GAAP basis, a level far beyond a maintenance levels you see at most companies.   Of course it is not just about the quantity of R&D investment, but the quality, and as you know we consider our visual AI R&D to be the best out there. Evidence supporting this continues to mount as we successfully leverage our well established video processing leadership into the computer vision AIoT market.

This large growth R&D investment has been focused on processing data collected from the lens of a camera with an "algorithm first" approach. Now we have augmented this investment with the acquisition of Oculii, who uses a similar "algorithm first" approach for the high definition imaging radar market.

Radar perception is an incremental market for Ambarella. However we are most excited about the synergies with Oculii which we expect to be derived from 2 principal areas. First, we expect our combined camera and radar R&D investment to enable breakthrough levels of perception at economical price-points, as Ambarella is now one of the very few semiconductor companies to have advanced camera and radar technology development under one roof. Second, through our CV SoC roadmap we are able to provide the processing power not just for the perception processing, but we target the incremental processing for the fusion, planning and control layers in a variety of AIoT markets. All of this is expected to drive more value, both higher selling prices and improved market share, for Ambarella and its stakeholders.

In summary during Q3 we demonstrated progress on the strategic front with the acquisition of Oculii and our CV portfolio ramp continues. Our financial results are providing an early look at how we intend to capitalize on an entirely new phase of the digital AI transformation, a phase where deep learning is not just executed in servers, but in our SoC platform designed for the unique needs of the edge AIoT endpoint market.

I want to thank all our stakeholders, employees, suppliers, partners, customers and shareholders, for your continued support.

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

John Young, VP Finance

Good afternoon, I will review the financials for the third quarter of FY22 ending October 31st and provide a financial outlook for our fourth quarter of FY22 ending January 31, 2022.

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, acquisition related costs adjusted for the impact of taxes.

Our revenue of $92.2 million was slightly above the high-end of our guidance range, representing a sequential increase of 16% from Q2 and a 64% increase from the year ago quarter. The previously anticipated wafer supply recovery from Samsung's Austin, Texas, fab helped sequential growth in the quarter. Automotive and IoT camera revenue, combined, increased more than 10% sequentially, and "Other" revenue experienced seasonal growth

Non-GAAP gross margin for Q3 was 63.1%, slightly above the 62.8% in the preceding quarter and slightly above the high-end of our guidance range. The pricing environment for our products is stable, our mix remained favorable, and we are managing higher supply chain costs.

Non-GAAP operating expense for the third quarter was $35.6 million, compared to $36.4 million for the previous quarter. Our Q3 operating expense was below the low-end of our guidance primarily due to the timing of non-recurring R&D expense.

Other income of $408 thousand was higher than expected primarily due to the realization of gains as investments were sold to finance the acquisition of Oculii.

The Non-GAAP net income for Q3 was $22.2 million, or $0.57 per diluted share compared with non-GAAP net income of $13.1 million, or $0.35 per diluted share in the second quarter.

Total headcount at the end of the third quarter, before the Oculii transaction closed, was 824, up 8% from a year ago, with about 82% of employees dedicated to engineering. Of these engineers, about 69% are developing software and algorithms.

Total accounts receivable at the end of Q3 were $44.8 million or 45 days of sales outstanding, versus $38.3 million or 44 days of sales outstanding at the end of the prior quarter.

Net inventory at the end of the third quarter was $47.0 million compared to $42.1 million at the end of the previous quarter. Days of inventory increased to 118 days in Q3 from 115 days the prior quarter.

In Q3 our operating cash flow was a positive $8.3 million, versus a positive $14.4 million the prior quarter. Cash and marketable securities were $457.8 million, up from $449.2 million at the end of the second quarter.

We had two 10% plus revenue customers in Q3. WT Microelectronics, a fulfillment partner in Taiwan who ships to multiple customers in Asia, represented 63% of revenue and Chicony, a Taiwanese ODM who manufacturers for multiple customers, was 13%. Dahua and Hikvision, combined, declined sequentially and represented a mid single digit portion of our total revenue. In the professional security camera market, market share shifts between some of our customers are becoming noticeable.

Turning to our guidance for the fourth quarter of FY2022.

We completed the acquisition of Oculii on November 5th, and our fourth quarter guidance incorporates Oculii's results from operations from that point, or about 12 of the 13 weeks in the quarter.

As reported by many of our customers, underlying demand remains solid but the supply-side dynamics remain challenging. In Q3 we began to experience the expected improvement in wafer supply following the shortfall from the Texas freeze, however shortages of other companies' components at our customers became more acute in Q3 and so far into Q4. As a result, our guidance contemplates some of our orders may continue to be rescheduled to ship at a later date.

Based on these factors and our best judgement at the current time, we expect total revenue for the fourth quarter ending January 31, 2022 to be in the range of $88.5 million to $91.5 million. Revenue from the automotive market is expected to increase sequentially, with non auto IoT camera business expected to decline sequentially. In Q4 we expect the revenue from Dahua and Hikvision, combined, to decline to the low single digit percent of our total revenue.

We estimate Q4 non-GAAP gross margin to be between 63.0% and 64.0%. We are experiencing some higher costs to manage the supply chain, but a healthy customer and product mix, together with a relatively stable pricing environment, are likely to enable our gross margin to continue to temporarily remain above the high-end of our long-term model of 59% to 62%.

Non-GAAP operating expense in Q4 is projected to be between $39.0 and $41.0 million, due to higher SoC development expense, increased hiring, and the inclusion of Oculii's operations. .

The Q4 non-GAAP tax rate should be modeled in the 3% to 6% range.

We estimate our diluted share count for Q4 to be approximately 39.5 million shares.

Ambarella will be participating in Wells Fargo's TMT Summit tomorrow, December 1st, Imperial Capital's Security Investors Conference on December 15th, Needham's Growth Conference on January 12th and Baird's Vehicle, Technology and Mobility Conference the last week of January. Our Capital Markets Day will be held on Tuesday, January 4th from 1pm to 4pm at our CES hotel location in Las Vegas, and we will be offering sell-side analyst hosted tours of our demos on January 5th, 6th and 7th. Please contact us if you would like to participate.

I will now turn the call over to the operator for questions.

Q&A

Fermi after Q&A

We are excited to be returning to Las Vegas in January to host both our Capital Markets Day and CES events. We will be demonstrating a wide range of automotive, security, access control and robotics technologies and offer rides in our L4 autonomous vehicles and provide our first demonstrations of Oculii's radar software. We hope to see many of you in person at these events. Thank you for your attention today. Goodbye.