

August 28, 2025 1:30PM PST

Q2 fiscal year 2026 (July 31, 2025) earnings call script

Louis Gerhardy, VP Corporate Development

Good afternoon and thank you for joining our second quarter, fiscal year 2026 financial results conference call. On the call with me today is Dr. Fermi Wang, President and CEO, and John Young, CFO.

The primary purpose of today's call is to provide you with information regarding the results for our second quarter fiscal year 2026. 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 based on currently available information and 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.

Before starting the call, I will summarize our investor events scheduled for our 3rd fiscal quarter;

- September 3rd we will participate in Citi's Global TMT Conference in New York City
- September 4th we will host KGI Securities bus tour at our office in Santa Clara
- September 16th we will host Bernstein 7th Annual West Coast Semis Bus Tour at our office in Santa Clara
- On September 18th and 19th Craig Hallum will host us on a Midwestern non deal roadshow

Access to our second quarter fiscal year 2026 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. The content of today's call as well as the materials posted on our website are Ambarella's property and cannot be reproduced or transcribed without our prior written consent.

Fermi will now provide a business update for the quarter, John will review the financial results and outlook and then the three of us will be available for your questions.

Dr. Fermi Wang, President & CEO

Good afternoon and thank you for joining our call today

Our strong momentum continued in our second quarter, with revenue of \$95.5 million increasing 11% sequentially, above the high-end of our prior guidance range of \$86.0 million to \$94.0 million. The second quarter results represent the fifth consecutive quarter of record edge AI revenue. Furthermore, I'm proud to say the mid-point of our new third quarter and full year fiscal 2026 revenue guidance ranges represent all-time record quarterly and fiscal year total revenue for Ambarella.

In our May 29th earnings call, we increased our fiscal 2026 revenue growth estimate to a range of 19% to 25% or approximately \$348 million at the midpoint. With a strong order book, as well as our expectation for both our total units shipped and our average selling price ("ASP") to increase in fiscal 2026, we are increasing our fiscal 2026 revenue growth estimate to a range of 31% to 35%, or approximately \$379 million at the midpoint.

Needless to say, it is a very exciting time for Ambarella. Fundamentally, after a multi-year period of significant edge AI R&D investment, our broad product portfolio enables us to address the rising breadth of edge AI applications. This increased breadth not only drives our overall unit demand, but we continue to see very strong demand for our new 5 nanometer AI SoCs in both our existing and emerging edge AI markets, which is driving our firmwide average selling price higher (“ASP”).

I would like to “double click” on the rising breadth of edge AI applications I mentioned and focus on 3 applications we see as rapidly emerging for us; portable video, robotic aerial drones and the edge infrastructure.

Our edge AI revenue began in the enterprise security market more than 5 years ago and was followed by incremental edge AI applications in the smart home, automotive safety and telematics markets, all of which are continuing their unique growth trajectories. Now this year, layered on top is the rising demand for our edge AI SoCs from the portable video market, including action cameras, panorama cameras, and body worn cameras.

In addition to the portable video market, we expect to commence high volume shipments into the robotics market by the end of this fiscal year. The unit volume in the robotics market is highly fragmented by applications, form factors and customers, but our technology, products and roadmap have enabled us to win one of the early high volume robotic applications; partially autonomous aerial drones.

Portable video and robotics both represent new emerging edge AI applications in Ambarella's traditional market for IoT endpoints. Today we are also announcing our first win in the edge AI infrastructure with our N1-655 SoC. This win is yet another example of the expanding breadth of our edge AI business, and I am encouraged by the interest in our N1 edge AI infrastructure roadmap from both new and existing customers.

In the automotive autonomy market, the largest subset of the robotics market, we are actively bidding on OEM projects with our CV3-AD family of advanced 5 nanometer central domain controllers for L2+ to L4 applications. While offering significant lifetime revenue opportunities, the lower frequency of award decisions, OEM program delays and a longer time-to-revenue are causing our other edge AI applications to emerge more rapidly for us. Nevertheless, we remain highly focused on developing this business and we will provide updates on our progress as wins occur.

I will now describe some representative customer engagements during the quarter, beginning with 2 key customer design wins that validate our future vision and strategy.

In the rapidly growing robotic drone market, Arashi Vision, also known as Insta360, launched the world's first 8K 360° drone under its new Antigravity brand. Powered by our CV5 AI SoC this drone features dual lenses on both the top and bottom, enabling 8K 360° video recording. The AI capacity in CV5 is fully utilized in this partially autonomous drone, and our product portfolio will enable the drone market to evolve rapidly to higher levels of autonomy. The Antigravity A1 is set to launch globally in January 2026.

We are proud to see Arashi very successfully differentiate their diverse portable video and now robotic aerial drone portfolio with AI features such as neural net image signal processing, AI editing and gesture control leveraging our AI SoCs. A majority of Arashi's products are based on Ambarella SoCs, and approximately 70% of Arashi's shipments are exported.

In the emerging Edge AI Infrastructure market, a global networking customer is rolling out a compact, on-premises network AI appliance with multi-modal intelligence at the event level built on our N1-655 AI SoC. This appliance will add LLM-powered, natural-language search and we were selected because of our power efficiency, network bandwidth savings and low bill-of-materials cost. This is a great example of one of the green shoots I mentioned earlier. There are several other use cases being evaluated on our N1-655 SoCs.

In our Automotive safety, ADAS and telematics business I would like to share some key customer wins during the quarter.

Samsara, a leading provider of commercial fleet telematics solutions, has introduced its AI Multicam platform. Based on Ambarella's CV72 AI SoC, Samsara's AI Multicam delivers live 360° visibility and real-time risk detection alerts on an in-cab monitor with up to 4x auxiliary HD camera feeds. It's a great design win for CV72 that demonstrates more camera inputs and advanced AI features on a single SOC.

Audi, is utilizing CV22FS for their Left/Right emirror functions in the E5 model, initially in the China market. It enables them to provide intelligent context-adaptive viewing modes on highways, parking, turning and lane changes with dynamic image processing and display enhancement functions.

Also, in the emirror market, BAIC's Stelato S9 is utilizing CV22FS for their rear-view electronic mirror. They note that AI-aided detection via camera input helps them cut down blind spots by up to 60%.

A leading Chinese OEM will utilize our CV22 SoC for their 8MP sensor designed specifically for their L2 front ADAS functionality. A key capability they are enabling is small target detection at a long range.

In the Enterprise Security segment, Honeywell in India has launched their 50 Series enterprise security cameras in 3MP and 5MP resolutions based on our CV25 SoCs. India is a fast-growing market with a drive for "Made in India" products creating new customer opportunities for us.

In the smart home market, one of our long-term customers in US has leveraged our H32 SoCs to build multi-sensory multi-modal AI products available in retail outlets today. They have built a nursery device integrating video monitoring, two-way intercom, white noise generator and air quality sensors. They have also built a Garage device that features carbon monoxide & heat detection, security camera and intercom functionality.

Also in the smart home market, Netatmo has launched their Indoor Camera Advance product that is built on S6L SoC in the European market.

As you can see from these representative customer engagements, we continue to build design win momentum in our existing edge AI endpoint applications, and we continue to successfully address incremental edge AI applications, such as robotic aerial drones and edge infrastructure, as the edge AI market breadth expands.

Having shipped more than 36 million edge AI processors to hundreds of customers who have successfully ported hundreds of advanced customer AI models to our SoCs, there should be no doubt that Ambarella is a leader in edge AI. Edge AI is expected to represent about 80% of our total revenue this year. We are focused exclusively on the unique needs of the edge AI market and we continue a rapid pace of innovation.

In conclusion, I would like to summarize the key points covered today.

- We delivered Q2 results above the high-end of our prior guidance and we increased the midpoint of our full-year fiscal 2026 revenue guidance by 9%
- The breadth of our edge AI applications we are successfully addressing is expanding, as seen with our ongoing ramp in a variety of portable video applications, and the anticipated production ramps for robotic aerial drones and edge infrastructure
- The growth of our edge AI business is often occurring with our higher priced edge AI SoCs, supporting the anticipated growth in our ASP
- We are exclusively focused on the unique requirements of the edge AI market and we remain an established, edge AI market leader who continues to innovate at a rapid pace

John will now discuss the Q2 results and the Q3 outlook in more detail.

John Young, CFO

Thanks Fermi.

I'll now review the financial highlights for the second quarter, fiscal year 2026 ending July 31, 2025. I will also provide a financial outlook for our third quarter of fiscal year 2026 ending October 31, 2025.

I'll 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 and acquisition-related expenses, adjusted for the impact of taxes.

For fiscal Q2, revenue was \$95.5 million, above the high-end of our prior guidance range of \$86.0 million to \$94.0 million, and up 11.2% from the prior quarter and up 49.9% year-over-year. Sequentially, Automotive revenue increased in the mid-single digits and IoT increased in the low teens, with IoT growth led by the adoption of edge AI in portable video applications. IoT in fiscal Q2 represented slightly more than 75% of our revenue and is spread across an increasing number of edge AI applications.

Non-GAAP gross margin for fiscal Q2 was 60.5%, at the low-end of our prior guidance range of 60.5% to 62.0% due to product mix.

Non-GAAP operating expense in Q2 was \$53.4 million, below the midpoint of our prior guidance range of \$52.5 to \$55.5 million, primarily due to lower engineering-related costs associated with the timing of product development.

Q2 net interest and other income was \$2.2 million. Comparing to our prior guidance of \$1.8 million, the increase was primarily from higher interest income.

Q2 non-GAAP tax provision was approximately \$0.2 million.

We reported a Non-GAAP net profit of \$6.4 million or \$0.15 per diluted share in Q2.

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

Fiscal Q2 cash and marketable securities reached \$261.2 million, increasing \$1.8 million from the prior quarter and \$41.4 million from the same quarter a year ago. Increased cash and marketable securities benefited primarily from operating cash flow associated with increased revenue, partially offset by increased expenditure on capital investments during the quarter.

Receivables days-sales-outstanding increased from 31 days in the prior quarter to 40 days, while days of inventory decreased from 98 days to 85 days.

Operating cash inflow was \$5.5 million for the quarter.

Capital expenditures for tangible and intangible assets were \$4.1 million for the quarter.

Free cash flow was \$1.4 million for the quarter.

We had one logistics company representing 10% or more of our revenue. WT

Microelectronics, a fulfillment partner in Taiwan that ships to multiple customers in Asia, came in at 71% of revenue for the second quarter.

I'll now discuss the outlook for the third quarter of fiscal year 2026. The breadth of our edge

AI business is expanding with a strong unit and average selling price outlook. As a result, in Q3

we forecast revenue in the range of \$100.0 to \$108.0 million, or \$104 million at the mid-point.

Sequentially, we expect mid to high single digit percent growth in our Automotive business,

with our IoT business up in the mid-teens. For fiscal 2026, we anticipate a revenue growth

range of 31% to 35%.

We expect fiscal Q3 Non-GAAP gross margin to be in the range of 60.0% to 61.5%.

We expect non-GAAP OPEX in the third quarter to be in the range of \$54.0 to \$57.0 million,

with the increase compared to Q2 driven by new product development costs.

We estimate net interest and other income to be approximately \$2.0 million, our non-GAAP tax expense to be approximately \$800 thousand and our diluted share count to be approximately 43.7 million shares.

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