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Q2 Fiscal Year 2023 (July 31, 2022) earnings call script

Louis Gerhardy, Corporate Development

Good afternoon and thank you for joining our second 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 second 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 June 8, 2022 for the first quarter of fiscal year 2023.

Access to our second 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 then we will be available for your questions.

Dr. Fermi Wang, President and CEO

Good afternoon, thank you for joining our call today.

Q2 results were mostly as expected; revenue was down 10% sequentially and up 2% versus the year ago quarter. CV revenue increased significantly on a year-over-year basis, driving our blended average selling price above \$10.00. We have cumulatively shipped more than 10 million CV SoCs, including more than 20% into the automotive market, and we remain on track to achieve our prior estimate that CV will represent about 45% of our total revenue for the year.

In Q2 we absorbed the worst from both the China lockdown and the 14nm shortage, and incomplete kits remained a bottleneck for many of our customers. Collectively we should see some improvement from these factors in the 2H, but our recovery outlook is tempered as some customers are now reducing their inventory levels, in particular as lead times contract.

In July we commenced a global roadshow to leading automotive Tier 1s and OEMs with live demonstrations of our CV3 SoC. As a reminder, CV3 is our first central domain controller integrating in a single monolithic die all of Ambarella's core competencies; perception processing from cameras, radars, sensor fusion and path planning, as well as our functional safety and application software. Just one month after the SoC came out of the fab we demonstrated full functionality across multiple live cameras to many global automotive OEMs and Tier 1s. The superior performance and efficiency, as well as the scalability of our SoC roadmap, were clearly recognized and well received, leading to many follow-on development discussions. We expect to be able to share more about some of these customer engagements by the end of the year.

We are also proud to announce that CV5, our first 5nm SoC, entered production in Q2, at least a quarter ahead of expectations. We have three IoT customers that each purchased production volumes in Q2, and we are engaged with many other companies developing their first CV5 products.

I will now provide some examples of our market development activity, where production has already, or is expected to commence this year.

Toyota introduced its 16th generation 2023 Toyota Crown model featuring a 2-channel digital video recorder based on Ambarella's CV25AX AI processor. Capable of recording from both the ADAS system and the electronic mirror, the car recorder is supplied by Japanese tier 1 Denso-Ten.

BMW began shipping two dash camera models, the Advanced Car Eye 3.0 and 3.0 Pro, providing both front and rear view recording. Based on Ambarella's H22 video SoCs, the dash cams will be sold in over 80 markets, with the Chinese version also including electronic toll charging features.

In June, China-based FAW Hongqi introduced its latest generation of B-class cars. The H5 sedan includes an L2 ADAS system based on our CV22AQ automotive SoC and supplied by tier 1 Neusoft.

Also in June, China-based Dongfeng introduced its Haoji SUV. The SUV includes an Occupant Monitoring System based on our CV28AQ and supplied by tier 1 BCS.

In August, Israel-based Cippa announced Chery's SUVs will integrate Cippa's Driver Sense DMS running on Ambarella's CV28 AI processor. The integration of the CV28 and driver sense software utilizes neural networks to offer robust driver monitoring capabilities.

I will now talk about some of the new IoT product announcements.

Johnson Controls introduced its 4th generation Illustra Flex camera series, including mini-dome, PTZ and bullet models, based on our CV28S AI SoCs.

Also during the quarter Ubiquiti announced its AI Bullet camera. Based on our CV25S AI SoC the 4 megapixel camera includes smart detection of people and vehicles.

Korean IP-camera maker IDIS, launched four new 8MP and 6MP PTZ cameras based on our CV28 and CV22 SoCs. The cameras are designed for wide-area surveillance operations with the capability to identify objects and recognize faces at distances of up to 300m.

Japan-based iPro, introduced a new 2-megapixel machine vision camera aimed at manufacturing sites and based on our CV22 AI SoC. The camera performs automatic visual inspections and supports up to 100 different object types, for example detecting the presence of cables and connectors, different colors, or the presence or polarity of electrical components.

Also in Japan, JVC introduced its new PZ2510 videoconferencing camera focusing on live broadcast and recording applications such as concerts and lectures. Based on Ambarella's Cv22 AI SoC, the camera supports full 4kP60 video streaming, face detection, automatic tracking and wide viewing angle.

In other IoT markets, Insta360 introduced two new products based on our H22 video SoCs. The Insta360 Sphere is an accessory for a drone and works by placing one camera above the drone and one below to create a seamless spherical image.

In the smart home IoT market, Insta360's Link is an AI-powered 4K videoconference device using a 3-axis gimbal design and powerful AI tracking, automatic zooming and framing, to ensure that the presenter is always center stage.

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. We have successfully leveraged our human viewing perception processing expertise into the larger machine sensing markets, addressing megatrends such as security, safety and automation. These machine sensing unit opportunities are incremental, and much larger than the human viewing market we have, and will continue, to serve. Furthermore, we are demonstrating we can capture more value in these sensing applications from incremental processing functions such as radar and other sensor perception, sensor fusion, planning, functional safety and application software. CV3 ties all this functionality together.

So we are confident we are implementing the right strategy and demonstrating early signs of success. Despite the current market turmoil we will continue to drive our organic R&D investments 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 year 2023 Q2 and provide a financial outlook for our third quarter, ending on October 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 and acquisition related costs adjusted for the impact of taxes.

Revenue for fiscal Q2 was \$80.9 million, slightly above the mid-point of our prior guidance range, down 10% sequentially and up 2% year-over year. As expected, supply chain related disruptions were the primary factor in the sub-seasonal performance, and both IoT and Auto revenue declined sequentially.

Non-GAAP gross margin for fiscal Q2 was 64.5%, above the high-end of our guidance range of 63% to 64%. Our gross margin out-performance was driven by a higher mix of NRE revenue than originally expected.

Non-GAAP operating expense for the second quarter was \$44.2 million, compared to \$39.8 million in Q1. This was \$700 thousand above the mid-point of our prior guidance range of \$42 to \$45 million, driven primarily by engineering materials for new products.

Our non-GAAP tax provision was \$361 thousand, or 4.5% of pretax income, and we reported Non GAAP net income of \$7.6 million or \$0.20 per diluted share.

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

Cash and marketable securities decreased by approximately \$3 million as unusual working capital benefits in the prior quarter reversed and metrics normalized. You will remember that in the prior quarter accounts receivable benefitted from a front-end revenue skew and inventory declined. For fiscal Q2, DSO increased to 43 days from 28 days and days of inventory increased from 117 to 125.

We had 2 logistics and ODM companies represent 10% or more of our revenue in Q2. WT Microelectronics, a fulfillment partner in Taiwan that ships to multiple customers in Asia, came in at 59% of revenue. Chicony an ODM who manufactures for multiple IoT customers was 13% of revenue.

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

While we expect some improvement in the second half, from the broad supply chain disruptions, we have started to see some customers reduce the amount of inventory they're willing to carry into year-end, in particular as component lead times contract. Our guidance, to the best of our knowledge at the current time, contemplates these challenges. We estimate our Q3 revenue to be in the range of \$81.0 to \$85.0 million, or approximately flat to up 5% sequentially.

We estimate Q3 non-GAAP gross margin to be between 63.0% and 64.0%.

We expect non-GAAP OPEX in the third quarter to be in the range of \$44 to \$46 million, with the increase compared to Q2 coming primarily from increased headcount and sales activities taking place during the quarter.

We estimate net interest income to be approximately \$400 thousand, our non-GAAP tax rate to be in the range of 4% to 6% and our diluted share count to be approximately 39 million shares.

Ambarella will be participating in Deutsche Bank's Technology conference on September 1st, Credit Suisse's virtual Asia Technology conference on September 6th (September 7th in Taiwan), Citi's Technology conference on September 8th, and UBS's virtual Future of Mobility conference October 3rd. 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 an upcoming event, goodbye.