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Q1 Fiscal 2027 (April 30, 2026) earnings call script

Louis Gerhardy, VP Corporate Development

Good afternoon and thank you for joining our first quarter, fiscal year 2027 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 first quarter fiscal year 2027. 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.

Access to our first quarter fiscal year 2027 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.

Before starting the call, we hope to see you at one of the following investor events scheduled during our second quarter;

- June 2nd at Bank of America's TMT Conference in San Francisco
- June 23rd at Northland's virtual ECM Growth Conference
- June 23rd and 24th investor meetings in Baltimore and Boston
- August 18th at Rosenblatt's Age of AI event

And for your calendar planning in our third fiscal quarter, please note we are a sponsor at the AI Infrastructure Summit in Santa Clara on September 15th to 17th, we hope to see you there where we will lead the Physical AI track with a number of edge AI product demos in our exhibit area.

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.

Fermi Wang, President & CEO

Good afternoon and thank you for joining our call today.

During our first fiscal quarter we delivered on our key financial guidance; revenue, gross margin and operating expenses. Most importantly we continue to extend our edge AI platform leadership with technology and product innovation addressing existing and emerging use cases. As a recognized edge AI leader we are entering a new and significant phase of our market development with the execution of long-term customer agreements ("LTA"), which can drive a more predictable revenue stream while also offering lifetime revenue potential far in excess of what we have realized in the past.

Let me provide a few comments about the current market environment. In Q1 we delivered revenue at the high end of the normal season range and slightly above the mid-point of our guidance. Demand signals and the long-term secular growth outlook for edge AI remain very strong, and I am very optimistic about our ability to serve it, in particular as AI workloads become more complex.

IoT applications were about three-quarters of our total revenue and were seasonally down, with our enterprise security camera market growing in the high single digits sequentially offset by a double-digit sequential decline in our consumer IoT business. Our automotive revenue established a new all-time revenue record, with very strong double-digit growth led by the rapid emergence of AI within the large and growing commercial vehicle telematics market as well as automotive safety applications.

After a multiple year build-out of AI training capacity in datacenters, the AI market is increasingly focused on AI inferencing. And within the inferencing market, the processing is becoming more distributed; in other words processing is moving to the edge and physical AI layers of the network hierarchy. As the edge market evolves to GenAI and agentic AI in particular, our positioning becomes even stronger, and I would like to explain more about this.

First before talking about Ambarella's unique positioning, let me remind you of the advantages edge AI offers relative to the datacenter. Edge AI processing reduces latency, lowers power consumption, minimizes communication expense, and improves privacy and security.

So why is Ambarella's edge AI platform so well positioned?

First, Ambarella's edge AI platform is comprehensive and well established, yet expanding and under constant evolution to adapt to new AI trends. We believe a broad and highly programmable edge AI platform is required to address a wide number of use cases, enabling customers to be more efficient by reusing software and scaling their businesses. Our software platform is now open and easy to use, and supports a wide variety of AI models with more than 200 different AI model architectures reaching production, we have cumulatively shipped more than 46 million edge AI SoCs, and we have 12 edge AI SoCs already available with up to hundreds of TOPS like performance.

Another reason Ambarella is so well positioned for GenAI and agentic AI at the edge is that our software tools and AI SoCs integrate all the accelerated computing system functions into a single platform. In the datacenter the functions such as data aggregation, AI acceleration, CPUs and other system functions are usually a collection of discrete SoCs from different vendors. However at the edge to be successful our AI SoCs integrate all the functions; perception, fusion, AI acceleration, CPUs, encoding, and other system functions into one single chip.

And our differentiation is not just in proprietary processing elements, and the advanced VLSI integration, but also in the proprietary algorithms, full edge AI stack software and edge AI agentic frameworks that tie the entire system together. As workloads become more complex, such as with GenAI, multi-modal reasoning and autonomous agent-based workflows, our deep expertise across the full accelerated computing stack, optimized specifically for edge deployment, becomes increasingly rare and of strategic value in the industry. In other words, as our customers need more performance in their edge AI applications, there are an extremely limited number of companies that can do this, and even fewer that are proven and established.

We are now becoming recognized as one of the very few companies that can tie this all together as edge AI workloads get more complex. We are entering a new phase of edge AI and physical AI market development, where we are engaged in multiple discussions with customers who want to enter deeper relationships including multi-generational commitments. This can take the form of long-term agreements ("LTA") that involve our standard products and/or our semi-custom AI SoCs optimized for a customers' particular workload.

Relative to our current customer relationships, LTAs will enable longer-term partnerships that may include a structured contract involving volume and pricing, typically over 5 years or more. Over the long run, we expect the LTAs to be an important driver of revenue growth, improve visibility, result in less volatility and improve the predictability of our revenue.

Our first LTA example involves our first 2nm and semi-custom edge AI SoC, which we taped out in January, and this product is named CV8. This AI SoC will serve both consumer and enterprise applications in the IoT endpoint market. For this long-term agreement, we agreed to develop a semi-custom ASIC for a customer who wants to support a certain complex AI workload. We will sell this AI SoC as a standard product to a variety of other customers in other markets.

This afternoon we announced another material LTA, this time with Hanwha in South Korea for the enterprise capex side of the IoT market. With Hanwha this LTA is for the sourcing and co-development of Ambarella's edge AI technology across Hanwha's product lines and industries, including physical security, operational automation, life sciences, robotics and other industry markets. The agreement has a potential revenue in-excess of $800 million over a period exceeding ten years, and represents one of the largest agreements in Ambarella's history and one of the first agreements of its kind in the edge AI semiconductor market. The multi-generation nature of the relationship is expected to enable both companies to plan jointly across technology roadmaps, accelerate product development cycles and bring new categories of AI enabled products to market at scale. Similar to our first LTA, this relationship will involve standard AI SoCs we will sell in a variety of markets to all our customers.

Beyond these first two LTAs, we are engaged in discussions with other companies.

Today I will provide an update on robotic, edge infrastructure, and automotive markets, which represent material market opportunities for us. I am very pleased to share that we now have 15+ robotic design wins, including aerial drones, with lifetime revenues exceeding $100 million with more than 30 customers in our robotic pipeline.

Our AI SoCs combine high-performance AI inference, advanced computer vision, and ultra-efficient power consumption into a single edge-optimized architecture and represent the foundational platforms for robotic systems to run Vision-Language Action ("VLA") models. In drones, CV5 is enabling platforms such as the Antigravity A1, enabling capabilities including 8K imaging, real-time perception, autonomous navigation, obstacle avoidance, SLAM, and on-device AI inferencing without relying on constant cloud connectivity for these functions. As drones evolve from "flying cameras" into autonomous aerial robots, Ambarella's CVflow® AI accelerator architecture allows manufacturers to deliver lower-latency decision making, improved safety, longer flight times, and more advanced autonomy at the edge.

The robotic market is fragmented and we are realizing design wins across a variety of other robotic applications, including industrial automation, autonomous mobile robots (AMRs), delivery robots. Our AI SoCs evolve from providing perception, sensor fusion, and edge AI processing to also offer decision making and full autonomy needed for real-time robotic awareness and action. This convergence of high-quality imaging, AI acceleration, and edge autonomy running VLA models efficiently positions us as a key enabler of the broader physical AI and embodied AI ecosystem.

As I mentioned earlier, our automotive business established an all-time quarterly revenue record in Q1 and is on pace to establish a new fiscal year record. 3rd party research firms indicate global automotive production is expected to decline 1% or 2% this year, but with semiconductor content per vehicle rising, market research firms also anticipate the automotive semiconductor market to grow 10% to 15% this year. We expect our automotive revenue growth to outpace these figures due to our success in commercial fleet telematics and safety applications. The commercial fleet telematics market offers continued and exciting growth prospects, as there is an installed telematics base in excess of 100 million vehicles, growing around 10% CAGR, but only about 10% of this installed base is so far AI enabled. We are aligned with the industry AI telematics leaders who are also increasingly demanding AI SoCs that can take on not only more sensors but more complex AI workloads, and our platform of 12 edge AI SoCs is very well suited to help them scale in this market.

I will also provide an update on the buildout of our indirect sales channel that we announced to augment our existing direct-to-customer business. The development of our indirect sales channel is important to not only help us address a fragmented robotic market, but also to provide support for our emerging edge infrastructure business. We have already on-boarded half a dozen independent software vendors ("ISVs") in vertical industries like retail, industrial automation, transportation, healthcare and smart cities since our launch of our Developer Zone at CES in January, with more ISVs expected to be on-boarded by the end of this fiscal year.

In March, for the first time ever, we had a booth at Embedded World in Nuremberg, Germany where we did live demonstrations highlighting how Ambarella's AI SoCs, software stack, and developer tools deliver a competitive advantage across a wide range of AI applications—from AI agentic automation and orchestration to physical AI systems deployed in real-world environments. We had thousands of visitors and 300+ new registrants on our developer zone. One of our existing design partners demonstrated a real-time industrial quality inspection solution on CV72 and N1-655. Multiple new independent software vendors ("ISV") partners were present in our booth, including one who demonstrated retail AI solutions for in-store and drive through optimizations, another ISV demonstrated continuous training for high-speed rail networks and a third demonstrating warehouse robot solutions.

In March we also hosted an invitation-only exhibition at ISC West, showcasing how edge AI is powering the next generation of intelligent security and physical AI systems. At the center of our exhibit was our newly launched CV7 edge AI vision SoC, delivering advanced imaging and on-device AI processing, alongside the N1-655 edge AI SoC enabling edge infrastructure for low-power, high-performance enterprise security applications. One of our ISV partners demonstrated a smart city security solution based on CV75 and N1-655 solutions.

I will now briefly summarize representative customer engagements in Q1, and it is notable, for the first time, all of the examples are based on our edge AI SoCs; 3 from our CV2 family and 8 from our new CV7x family.

In the enterprise security market, while physical security remains the principal driver of this market, we are seeing our customers develop AI application software that enables their product to provide operational efficiency to a business; examples include predictive maintenance, supply chain optimization, and automated customer support. We expect operational efficiency in the long run to become an important new growth offshoot of what we refer to as “enterprise security” today, in particular as GenAI and agentic AI is deployed at the edge.

We achieved an important milestone in March when I-Pro, formerly Panasonic, announced the first edge endpoint camera to run GenAI locally, based on the transformer capability in our CV72 AI SoC. We also had a number of other CV75 and CV72 wins in the quarter, including IDIS in South Korea, Axis in Sweden (now part of Canon), IQSight (formerly Bosch) in Germany, and with a major communications equipment company in the Americas. Notably, we had an additional CV 72 win with CPRO in South Korea that also utilizes our new AI Imagine Singal Processing ("ISP") software. We also won a CV22 platform with CPRO and we had another CV5 win with the major communications equipment company in the Americas. In the industrial market, we earned another AI--based bar code reader project based on CV28, this time with Hanwha Vision, who is expanding its reach beyond the traditional physical security market.

In the automotive market, our safety and telematics customer engagement activity remains strong. For example, we are pleased to announce Lytx, an industry leader in the commercial and public sector telematics market, has designed in CV75 and C72 into multiple platforms. For the in-cabin pre-installed safety market, we had a CV72 win with South Korean based tier 1 Yura and a CV22FS win for a Western OEM in China.

Our new product momentum remains very strong, both in terms of fiscal 2027 revenue generation as well as new products that have not started to generate revenue. While our 10nm CV2 family of edge AI processors for CNN applications continues to land design wins and grow, our new 5nm CV75 and CV72, capable of both advanced CNN and transformer based GenAI, as well as agentic AI, are in a steep production ramp and are expected to drive material incremental revenue this year. Layered on top of this, we continue to expect our new CV7 AI processor to enter production by the end of the year, and in the first half of fiscal 2028, or less than 1 year from now, we expect our 2nm CV8 AI SoC to commence production. All of these new products I have described, as well as all the new unannounced AI SoCs we have in development, target more sophisticated AI workloads and command average selling prices (ASP) well above our $15 SoC ASP in Q1.

As you can tell, we have a lot of technology, product, market and customer development activity going on. I would like to summarize this quarter's call with three observations.

First, the edge AI market is just getting started and momentum is building in multiple areas.

Second, Ambarella is clearly an edge AI technology, platform and product leader, and we are already well established. I think our positioning is getting even stronger as edge AI workloads get more complex, and there become fewer and fewer companies capable of integrating all the edge accelerated computing functions into a single chip.

Third, customers are recognizing the first two points and now want to engage with us more broadly and more deeply. For example, LTA agreements can build stronger relationships and get us designed into new markets like robotics, while the indirect channel sales ecosystem brings us more scale.

In conclusion, as all this comes together we intend to drive shareholder value with strong revenue growth, and a more diversified and predictable financial model that offers material operating leverage potential for our shareholders.

John will now discuss the Q1 results and Q2 outlook in more detail.

John Young, CFO

Thanks Fermi.

I'll now review the financial highlights for the first quarter, fiscal year 2027 ending April 30, 2026. I will also provide a financial outlook for our second quarter of fiscal year 2027 ending July 31, 2026.

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 Q1, revenue was $100.4 million, slightly above the midpoint of our prior guidance range of $97.0 million to $103.0 million, down 0.5% from the prior quarter and up 16.9% year over year. On a sequential basis, Automotive revenue, driven by commercial vehicles, experienced a strong, above seasonal, double digit percent increase while IoT revenue was seasonally down.

Non-GAAP gross margin for fiscal Q1 was 59.9%, slightly above the midpoint of our prior guidance range of 59.0% to 60.5%.

Non-GAAP operating expense in Q1 was $56.4 million, slightly below the midpoint of our prior guidance range of $55.0 to $58.0 million.

Q1 net interest and other income was $2.1 million.

Q1 non-GAAP tax provision was approximately $740 thousand.

We reported a Non-GAAP net profit of $5.0 million or $0.11 per diluted share in Q1.

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

Fiscal Q1 cash and marketable securities were $277.8 million, decreasing $34.8 million from the prior quarter but increasing $18.4 million from the same quarter a year ago. The sequential decrease in cash and marketable securities was primarily due to an increase in our inventory levels to better service our customers in the face of a number of new product cycles.

Receivables days-sales-outstanding of 35 in Q1 was flat with the prior quarter while days of inventory increased from 99 to 145 days.

Operating cash outflow was $25.6 million for the quarter.

Capital expenditures for tangible and intangible assets were $4.0 million for the quarter.

Free cash outflow was $29.6 million for the quarter.

During the first quarter of fiscal year 2027 we repurchased 47,798 shares of our stock for total consideration of $2.4 million, or an average price of $51.04 per share. During the second fiscal quarter, Ambarella's Board of Directors authorized a new $50.0 million repurchase program valid through June 30, 2027, replacing the program that expires on June 30, 2026. The repurchase program does not obligate the company to acquire any particular amount of ordinary shares, and it may be suspended at any time at the company's discretion.

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 60.7% of revenue for the first quarter.

I'll now discuss the outlook for the second quarter of fiscal year 2027. We forecast a seasonally strong fiscal second quarter, with revenue in the range of $105.0M to $111.0M, or $108.0M at the midpoint. Sequentially, both Auto and IoT revenue are expected to increase, with growth in both consumer and capex driven markets.

We expect fiscal Q2 Non-GAAP gross margin to be in the range of 59.0% to 60.5%.

We expect non-GAAP OPEX in the second quarter to be in the range of $56.0 million to $59.0 million.

We estimate net interest and other income to be approximately $1.9 million, our non-GAAP tax expense to be approximately $800 thousand and our diluted share count to be approximately 44.3 million shares.

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

(Q&A)

Fermi Wang, President & CEO

Thank you for joining our call today and I hope to see you at some of our events this quarter.