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Q2 Fiscal 2027 (July 31, 2026) earnings call script

Louis Gerhardy, VP Corporate Development

Good afternoon and thank you for joining our second 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 second 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 second 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 third quarter;

- September 8th we will host a DNB bus tour at our office in Santa Clara
- September 9th we will be at CITI's 2026 Global TMT Conference
- September 15th we will attend the Piper Sandler Growth Frontier Conference
- September 16th we will host Sanford Bernstein's 8th Annual West Coast Semis Bus Tour
- During the week of October 4th, we will have a European NDR with Oppenheimer with cities TBD

Also available to investors during the third fiscal quarter will be our booth and presentations 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 and Robotics 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.

Driven by a new record level of edge AI revenue, we reported fiscal Q2 revenue slightly above the mid-point of our guidance with non-GAAP EPS of $0.18, and with guidance for a seasonal fiscal Q3. By product, we are in the midst of a very steep revenue ramp with our 5nm CV75 and CV72 AI SoCs, and by market, we had sequential growth in both IoT and Auto, with automotive revenue driven by commercial vehicles.

The market is increasingly recognizing the strategic value of edge AI as well as our edge AI and physical AI platform leadership. We continue to make significant progress with the expansion of our edge AI platform leadership, including new go-to-market strategies and engineering and market development for a number of new higher value SoCs, some of which extend our reach into entirely new markets. We remain optimistic about the long-term secular growth opportunities in the edge AI market, and our R&D priorities are aligned with both the physical AI markets that represent a vast majority of our total revenue today, as well as the robotics and edge infrastructure markets that are in the early stages of developing. All together, our technology, products, and new go-to-markets, combined with the significant secular growth in edge AI, are increasing our 5-year serviceable market (or "SAM") forecast today.

Before I review our new market forecast, I would like to step back and discuss the market environment we are in. Demand signals for the application of edge AI remain strong. At the same time, it is obvious that memory vendors and the entire supply-chain are prioritizing AI datacenter demand, which is resulting in rising supply-chain costs for everyone. Surging memory prices and scarcity of supply are impacting the entire industry. Related to this, we are providing significant assistance to customers who are attempting to create a wide variety of workarounds to the memory situation. Ambarella itself is also facing rising supply-chain costs, and we plan to pass these costs to our customers to maintain our long-term gross margin target of 59.0% to 62.0%.

Returning to our rolling 5-year SAM update, I would like to remind you of our methodology. Our SAM for any given year is based on the products we expect to have available for production in that year, overlayed on the total available market ("TAM") projections from a number of 3rd party research firms. So our 5-year SAM captures any revenue generating product, announced or unannounced, on our roadmap in the next 5 years.

Our prior 5-year rolling SAM was announced in May 2025 and projected a 5-year, F2026 to F2031, compounded annual growth rate ("CAGR") of about 18%, with auto representing a slightly higher proportion of the terminal year.

Our new 5-year rolling SAM, from $8.5 billion in F2027 to $22.9 billion in F2032, represents a CAGR of about 20% with IoT markets now representing about 70% of the terminal year. While there are several factors behind the strong growth and the underlying mix change, I will focus on the most important change.

In the last year, it has become clearer that "operational efficiency," or the ability of an enterprise to generate more revenue and/or to reduce expenses, is likely to be a key driver of our emerging edge infrastructure business.   Operational efficiency at the edge refers to the use of open weight and distilled models running on on-premise inferencing hardware, in contrast to the large frontier models that run in the cloud. Benefits of this approach include reduced latency, data protection, privacy, lower bandwidth costs and higher reliability. Target markets include security, retail, lodging, logistics, healthcare and more.

The on-premise operational efficiency use case has emerged with growing expectations for sustainable, high-volume inferencing and increasingly, for agentic AI and Physical AI applications that can perceive, reason and ultimately act in the physical world. The key question has become "who can help the enterprise lower the cost per useful AI inferencing outcome?" This is where Ambarella's superior performance per Watt portfolio kicks-in, providing the efficient edge intelligence needed to enable these next-generation agentic and Physical AI workloads at scale.

With this perspective, in the last year we have several new products in development targeting on-premise hardware or what is commonly called edge infrastructure. As you know we already have our N1-655 AI SoC in the market, and we have additional unannounced AI SoCs in development. We also are implementing a stand-alone AI accelerator product line targeting the edge infrastructure market. Together these new edge infrastructure products, both AI SoCs and stand-alone AI Accelerators, represent the single most important reason for the upward revisions in our SAM.

Before I introduce our first stand-alone AI accelerator, allow me to be clear about our terminology. We define an edge AI SoC as one integrating all the accelerated computing functions into a single chip; camera perception, AI accelerator, CPU, encoding, etc. We define an AI accelerator as an AI processor that is not camera specific and targets a wide variety of digital or physical modalities. We believe this type of multi-modality is critical for edge infrastructure applications that target operational efficiency.

While not formally announced, I would like to preview one of the new AI Accelerators that will anchor this new product category for us, with another well-defined, more performant, product already behind it. We refer to this new AI Accelerator as X7. This SoC is sampling now and is expected to land initial design wins in edge infrastructure applications where it can serve as an AI co-processor for host processors such as ARM or X86.

Together with our new product thrust, expanded market reach and SAM, we expect our revenue growth to be supported with two incremental go-to-market strategies. First is the multi-step establishment of an indirect sales channel and second is a semi-custom chip strategy, both of which will augment our existing direct sales efforts.

As a reminder, virtually all our revenue is generated by our direct sales team, and today I am excited to announce two material partnership agreements to develop our indirect sales channel. Combined, these two partnerships plan to drive a significant amount of incremental revenue over the next 7 years through customers who have largely been unserved by us so far.

First, today we announced Ambarella's strategic partnership with Capgemini designed to help enterprises adopt Edge AI and Physical AI solutions faster by reducing the complexity of moving from evaluation to scalable deployment. By combining Ambarella's power-efficient AI software and platforms with Capgemini's global engineering, systems integration and industry expertise, the partnership aims to help customers improve operational efficiency, enhance real-time decision-making, and deploy intelligent systems in physical-world environments with greater speed, scalability and confidence.

In our second partnership to develop our indirect channel, today we also announced a 7-year agreement with Macnica, a leading global technical distributor. Macnica will support both Ambarella's physical AI and new edge infrastructure products by developing and supporting an independent software vendor ("ISV") ecosystem, including onboarding, technical integration support and joint go-to-markets programs. With this ecosystem in place, Ambarella's solutions can be offered as individual components or as complete bundles for multiple edge AI vertical markets, including video analytics, smart city, edge computing platforms, robotics, industrial IoT, intelligent transportation systems, retail analytics, security and surveillance.

I want to emphasize the importance of the indirect channel to serve small and mid-sized customers and highly fragmented markets, like robotics. However, the indirect channel is also critical to support our more complex AI SoCs targeting the edge infrastructure, where a broad network of partners is vital for our long-term success. Meaningful revenue is expected in 2-3 years and will grow as we introduce new products for the market.

Our second incremental go-to-market is our semi-custom opportunity which can enable us to gain more share in existing markets and reach into new markets. We have our first semi-custom project underway, the 2nm CV8 SoC, which is expected to generate first production revenue in fiscal 2028, and we are in discussions with other companies for additional semi-custom chip projects.

Our representative customer engagements this quarter once again demonstrate Ambarella's expanding traction across a broad set of applications: robotics, automotive, security, trail cameras, and smart video intercoms. Weilan's CV72-based quadruped robot validates Ambarella's high-resolution, multi-camera edge AI capabilities in robotics. A major S&P100 Communications equipment company announced an AI based enterprise video intercom, further extending our reach in the emerging access control market. We landed another win with Moultrie for AI trail cameras and wins with Canon, Suprema, IDIS, and CPRO further strengthen our AI monitoring pipeline with CV75, CV72, CV5 wins using our own AI-ISP software. Through Tier 1s, we had two in-cabin vehicle wins with Tier 1s in China, one for driver monitoring and the other for more complex camera monitoring systems used in Audi and VW vehicles.

The breadth of these wins, and the wide variety of corresponding AI workloads, highlights the programmability and flexibility in both our AI SoCs, and our Cooper Development Platform. This ease of use is facilitating the onboarding and expansion of our indirect sales channels. Very few competitors can offer this type of proven platform, with more than 50 million edge AI SoCs shipped.

In conclusion, I remain very excited about the overall growth opportunity of the edge AI market, and our company specific growth drivers put us in a unique position to benefit. Ambarella is expanding beyond low-power AI SoCs to deliver the complete foundation for physical AI; we are becoming a full-stack Physical AI platform provider.

With that I will now turn it over to John………

John Young, CFO

Thanks Fermi.

I'll now review the financial highlights for the second quarter, fiscal year 2027 ending July 31, 2026. I will also provide a financial outlook for our third quarter of fiscal year 2027 ending October 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. In addition, this quarter, as described in our Q1 FY2027 10Q filing as a subsequent event, we recognized a $9.0 million reduction in our GAAP research and development expense due to the cancellation of a customer's development project. We do not expect any impact on our non-GAAP outlook from this development.

For fiscal Q2, revenue was $108.1. million, slightly above the mid-point of our prior guidance range of $105.0 million to $111.0 million, up 7.7% from the prior quarter and up 13.2% year-over-year. Automotive revenue established a new revenue record on the continued strength as the commercial vehicle adoption of AI remains strong, and auto revenue slightly outpaced the growth in our IoT business, where our enterprise driven businesses outperformed our consumer led businesses.

Non-GAAP gross margin for fiscal Q2 was 59.3%, below the mid-point of our prior guidance range of 59.0% to 60.5%.

Non-GAAP operating expense in Q2 was $57.4 million, slightly below the midpoint of our prior guidance range of $56.0 to $59.0 million.

Q2 net interest and other income was $1.8 million.

Q2 non-GAAP tax provision was approximately $344 thousand.

We reported Q2 Non-GAAP net profit of $8.2 million or $0.18 per diluted share.

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

Fiscal Q2 cash and marketable securities were $272.3 million, decreasing $5.5 million from the prior quarter but increasing $11.1 million from the same quarter a year ago. The sequential decrease in cash and marketable securities was primarily due to higher payments for IP licenses.

Receivables days-sales-outstanding decreased from 35 to 32 days.

While inventory dollars declined 4% sequentially, the days of inventory increased from 145 to 157 days.

Operating cash outflow was $260 thousand for the quarter.

Capital expenditures for tangible and intangible assets were $6.8 million for the quarter.

Free cash outflow was $7.1 million for the quarter.

During the second quarter of fiscal year 2027 we did not repurchase shares of our stock. During the second fiscal quarter, Ambarella's Board of Directors authorized a new $50.0 million repurchase program valid through June 30, 2027. 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.

WT Microelectronics, a logistics partner in Taiwan that ships to multiple customers in Asia, was 60.2% of revenue for the second quarter. Hakuto, a logistics and distribution partner in Japan, was 11.0% of revenue in the quarter.

I'll now discuss the outlook for the third quarter of fiscal year 2027. We are anticipating favorable seasonality in our fiscal third quarter, with revenue in the range of $115.0 million to $124.0 million, or $119.5M at the midpoint. At the mid-point we expect our growth to be led by physical AI demand from the IoT market.

We expect fiscal Q3 Non-GAAP gross margin to be in the range of 59.0% to 60.0%.

We expect non-GAAP OPEX in the third quarter to be in the range of $56.5 million to $59.5 million.

We estimate net interest and other income to be approximately $1.9 million, our non-GAAP tax expense to be approximately $700 thousand and our diluted share count to be approximately 44.9 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 investor events this quarter.