

May 29, 2025 1:30PM PST

Q1 fiscal year 2026 (April 30, 2025) earnings call script

Louis Gerhardy, VP Corporate Development

Good afternoon and thank you for joining our first 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 first 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 2nd fiscal quarter;

- June 3rd we will be participating in Bank of America's Technology Conference in San Francisco
- June 17th we will host Redburn Atlantic's West Coast Bus Tour in Santa Clara
- June 18th we will host a Trivariate Research and NH Investment & Securities bus tour in Santa Clara
- June 23rd to June 25th we will be in Baltimore, Boston and New York City for a non-deal roadshow

Access to our first 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 we will be available for your questions.

Dr. Fermi Wang, President & CEO

Good afternoon and thank you for joining our call today

We had an excellent start to the year with first quarter revenue of \$85.9 million, in the upper half of our guidance due to the continued strength in our edge AI business. Both our 5nm CV5 and CV7 product families as well as our 10nm CV2 product families contributed to the revenue growth and our average selling price (“ASP”) continued to increase as we capture more value per design win.

Edge AI revenue, which we define as a product that integrates one of our proprietary deep learning AI accelerators, was more than 75% of our Q1 revenue, and this represents the fourth consecutive quarter of record AI revenue. This achievement demonstrates the execution of our edge AI strategy in the face of a volatile market. During the first quarter, IoT applications increased mid-single digits sequentially and now represent about three-quarters of our total revenue, with our automotive business declining low single digits sequentially, although automotive revenue was up more than 20% on a year-over-year basis.

In our February 26th earnings call, we provided a fiscal 2026 revenue growth estimate in the mid to high teens, or approximately \$327 million to \$339 million, with some conservatism built into our 2H outlook due to the geopolitical uncertainty. Although geopolitical uncertainty remains high, we are increasing our fiscal 2026 revenue growth estimate to a range of 19% to 25%, or approximately \$348 million at the midpoint. While we continue to expect that we will not face a material direct impact from the current tariffs, given the uncertainty of indirect impacts, our larger than normal range of guidance reflects our conservatism.

We are confident the long-term drivers of our edge AI strategy and business remain fully intact. Multiple factors are driving our optimism for the edge AI market, including my recent discussions with customers, the representative customer engagements I will discuss later in the call, as well the evolution of our edge AI serviceable available market (“SAM”).

Our SAM is comprised of more than 20 different automotive and IoT edge AI applications with a five-year compounded annual revenue growth rate (“CAGR”) in the high teens, reaching almost \$13 billion in fiscal 2031. In the past, a vast majority of our revenue and our SAM opportunity originated from the edge endpoint market, or the terminal device in a network, but our new analysis indicates SAM expansion in the edge infrastructure, or the layer of a network where data from multiple endpoints is aggregated and incremental advanced AI features and services, such as multi-modal vision-language and reasoning models, can be supported.

We are already addressing the edge infrastructure market with the N1 family, and we are now developing a new AI SoC product family to enhance our edge AI infrastructure roadmap. By leveraging the silicon architecture and software investment in our low power and scalable 3rd generation AI accelerator, we are able to efficiently extend our reach. Over the next few quarters we will be describing some of the edge infrastructure applications we are targeting in more detail.

In April I attended the ISC-West security show and met with key customers and partners.

Ambarella demonstrated its leadership in GenAI at the edge with 18 product demonstrations, including the latest GenAI and vision AI capabilities, and I was very pleased with the high level of customer interest and design activity around our advanced AI products.

The demonstrations highlighted Ambarella's ability to enable scalable, high-performance reasoning and vision AI applications leveraging our 3rd generation AI accelerator which now supports most of the leading GenAI models from 500 million to 34 billion parameters.

We demonstrated DeepSeek GenAI models running on our products at three different price/performance points, including CV75, CV72 and N1-655 processors. These demos, including advanced multi-stream video analysis, exemplify how we are pushing the boundaries of real-time, AI-powered security and analytics by running state-of-the-art vision language models for both endpoint and on-premise infrastructure.

I'll now talk about some of our customer product introductions during the quarter.

During the quarter a leading enterprise security camera company introduced 2 new products based on our CV72, offering very high resolution and advanced AI analytics. A third product, a wearable device supporting multiple modalities, was also introduced to the market, and this first-of-a-kind product is based on our S6LM video processor.

As I described earlier, we are seeing increased traction in the edge AI market beyond our core enterprise and home security business. This quarter, IoT edge examples demanding our AI technology include 360-degree portable video cameras, cyclist cameras, industrial automation and enterprise video conferencing.

In the portable video camera market, market leader Insta360 introduced its flagship model, the 360-degree X5 camera. Based on Ambarella's 5nm CV5, the X5 offers 8K video with advanced AI-based image processing.

Also in the IoT market, Garmin announced its Varia Vue headlight camera for cyclists based on our H32 video processor.

In the enterprise IoT industrial automation market, Huaray announced its R5000 series of machine vision code readers. Based on our 3rd generation AI accelerator, the 5nm CV75 enables the system to read up to 90 codes per second.

Also in enterprise IoT, Norway based Huddly introduced a new category of multi-camera video-conferencing products at the Integrated Systems Europe exhibition. Huddly's new C1 video bar is part of a collaboration with technology giant Lenovo, and the advanced system is based on our 5nm Cv72 with 20 times the AI performance of previous generation systems.

In our automotive safety and ADAS business, this quarter we are disclosing wins in China, Japan, Korea, and the US.

A leading Japanese OEM will utilize our CV25 SoC in a datalogger application, with the CV25 supporting both human viewing and data analytics. This project is supported by a major Tier 1 in Japan with production scheduled to begin this year.

Also in Japan, another leading Japanese OEM is utilizing CV25 for a multi-camera system providing in-cabin, recording and viewing functions, with production scheduled for our current fiscal year.

During the second quarter, Zeekr introduced its 007 GT electric vehicle featuring an interactive intelligent b-pillar system with two cameras. Our CV28 enables access control based on face ID as well as in-cabin monitoring.

Thinkware, a leading South Korean provider of smart car information technologies, has entered production with Harmony, a dual camera recorder based on CV25 supporting ADAS features such as forward collision warning, lane departure warning and security monitoring.

In the commercial fleet telematics market, US based RoadEazy introduced its RZ1 featuring a dual-view camera based on our CV25. The RZ1 captures clear road and cabin footage to improve fleet safety and accountability, with integrated edge AI identifying risks like distracted driving, phone usage or tailgating.

As you can see from these representative engagements, security remains an important growth market for us, but we are seeing opportunities in numerous other edge AI applications with customers in both the Auto and IoT markets evaluating and adopting our AI SoCs. As many of you know, roughly five years ago, edge AI originated in the enterprise security camera market, and we were quick to lead the market. Today, we continue to lead the security edge AI market, and we are successfully leveraging our AI portfolio and market know-how into new application verticals. In fact, security is less than half our total revenue today, and today's announcements are just a subset of new edge AI applications we see emerging.

Our investment in technology and products is driving today's revenue growth and our future revenue growth opportunities. Our edge AI products address the megatrends of safety and security, but also automation which enables end user productivity to be improved and/or enables entirely new revenue streams across many markets. While it is still early, AI is finding its way to the edge, it is not just a datacenter or hyperscaler opportunity anymore.

Ambarella is the leader in edge AI, with more than 32 million edge AI processors shipped on a cumulative basis. We are the established edge AI technology provider who is uniquely focused and positioned for the rapidly evolving edge AI market, and we continue a pace of rapid innovation. Our product portfolio and roadmap are highly differentiated and offer the flexibility and scalability to target increasingly diverse applications; both enterprise and consumer driven markets; and across edge endpoints as well as the edge infrastructure.

As I wrap-up today, I want to reiterate the important points we shared today.

- We delivered strong Q1 results with similar strength projected into Q2
- We increased our fiscal 2026 guidance while maintaining a conservative 2H stance
- Our higher value/higher ASP products are seeing strong momentum
- We have a strong SAM outlook; with new edge AI markets in development
- We are the established, edge AI market leader who is innovating at a rapid pace

Of-course the geopolitical uncertainty can be a distraction, but to deal with it I feel it is important to remain agile and be prepared for short-term surprises, and to focus on what we can control, while most importantly continuing the investment in innovation and market development that is most critical for our success. Financially, while we have generated positive free-cash-flow for 16 consecutive years, our goal is to develop the technology, products and customers that result in positive earnings leverage and growth in our free-cash-flow.

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

John Young, CFO

Thanks Fermi.

I'll now review the financial highlights for the first quarter, fiscal year 2026 ending April 30, 2025. I will also provide a financial outlook for our second quarter of fiscal year 2026 ending July 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 expense along with acquisition related costs, adjusted for the impact of taxes.

For fiscal Q1, revenue was \$85.9 million, above the mid-point of our prior guidance range, up 2.2% from the prior quarter and up 57.6% year-over-year. Sequentially, Automotive revenue declined in the low single digits and IoT increased in the mid-single digits.

Non-GAAP gross margin for fiscal Q1 was 62.0%, slightly above the mid-point of our prior guidance range due to a favorable product mix.

Non-GAAP operating expense in Q1 was \$51.8 million, slightly above the mid-point of our prior guidance range of \$50.0 to \$53.0 million, due in part to higher engineering costs on new and existing chip development projects.

Q1 net interest and other income was \$2.2 million. Comparing to our prior guidance of \$1.8 million, the increase was from higher other income.

Q1 non-GAAP tax provision was approximately \$0.6 million.

We reported a Non-GAAP net profit of \$3.0 million or \$0.07 of earnings per diluted share in Q1.

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

Fiscal Q1 cash and marketable securities reached \$259.4 million, increasing \$9.1 million from the prior quarter and \$56.0 million from the same quarter a year ago. Increased cash and marketable securities benefited primarily from working capital improvements associated with increased revenue during the quarter.

Receivables days-sales-outstanding decreased from 33 days in the prior quarter to 31 days, while days of inventory increased one day to 98 days. Compared to the prior quarter, our inventory dollars increased 14% to support our customers' strong demand outlook for our products.

Operating cash inflow was \$14.8 million for the quarter.

Capital expenditures for tangible and intangible assets were \$4.6 million for the quarter.

Free cash flow was \$10.2 million for the quarter.

During the second quarter of fiscal year 2026, Ambarella's Board of Directors approved an extension of the current share repurchase program for an additional twelve months ending June 30, 2026. During the first quarter we repurchased 24,152 shares of our stock for total consideration of \$1.0 million. As of today, there is approximately \$48 million available under our repurchase authorization.

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 63.1% of revenue for the first quarter.

I'll now discuss the outlook for the second quarter of fiscal year 2026. Demand for our edge AI inference processors remains strong. We anticipate fiscal Q2 revenue in the range of \$86 million to \$94 million, or \$90 million at the mid-point. We expect mid-single digit sequential revenue growth in IoT applications with auto revenue expected to be slightly up versus the prior quarter. For fiscal 2026, we anticipate a revenue growth range of 19% to 25%.

We expect fiscal Q2 Non-GAAP gross margin to be in the range of 60.5% to 62.0%.

We expect non-GAAP OPEX in the second quarter to be in the range of \$52.5 to \$55.5 million, with the increase compared to Q1 driven by new product development costs, including a new AI SoC addressing the emerging IoT edge infrastructure opportunities described earlier by Fermi. We also anticipate a weaker US dollar to have a moderately unfavorable impact on our operating expenses in the second quarter.

We estimate net interest and other income to be approximately \$1.8 million, our non-GAAP tax expense to be approximately \$800 thousand and our diluted share count to be approximately 42.6 million shares.

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