May 30, 2024 1:30PM PST

Louis Gerhardy, VP Corporate Development

Good afternoon and thank you for joining our first quarter fiscal year 2025 financial results conference call. On the call with me today is Dr. Fermi Wang, President and CEO, John Young, CFO.

The primary purpose of today's call is to provide you with information regarding the results for our first quarter of fiscal year 2025. 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 2025, 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 all for joining our call today

Our Q1 results were 1% above the mid-point of our guidance range with revenue increasing 6% sequentially. As expected, both auto and IoT revenue increased sequentially and AI products were about two-thirds of our total revenue. As previously discussed, our customers are in the midst of recovering from a cyclical inventory correction, and the favorable impact from this is expected to carry into the second quarter.

We continue to expect our fiscal 2025 revenue to grow year-over-year, driven by both the cyclical tailwinds and the secular growth in our AI portfolio. The combination of these cyclical and secular forces is expected to enable our AI inference revenue to grow more than 30% in fiscal 2025.

Zooming out for a minute, the significant capacity being added to the AI training network infrastructure globally bodes well for the ultimate deployment of AI inference at the edge, where we participate in the market. The deployment of AI inference at the edge enables end users to more practically take advantage of so many different AI breakthroughs. As focus on AI at the edge of networks increases, we see AI inferencing proliferating in multiple areas and we believe we are well positioned to take advantage of this.

In fact we are already in the early stages of demonstrating how it may play out for us. In Q1, for example, our customer engagements include our first passenger vehicle wins for our 5nm CV3-AD family of AI central domain controllers, we added another CV3-AD win in the commercial vehicle market, secured multiple enterprise class AI inferencing wins and even in Other IoT cameras, we are reporting additional wins for our 5nm CV5 AI processor.

In the midst of this great change, our opportunity, and challenge, is to develop AI technology and products that not only are extremely efficient for edge deployment, but also flexible enough to execute a very wide range of AI workloads across all these disparate applications. We are already in mass production with our AI products for video intensive CNN networks, such as detection, classification, fusion, planning, stitching, matting, tracking, framing, auto-editing, and neural network image signal processing. Now our 3rd generation of AI technology, integrated into our CV3-AD and CV7 series of SoCs, can support transformer networks for a variety of Generative AI ("GenAI") applications.

I would now like to describe customer engagements that can offer some indication how it can play-out for us.

As you know we have made significant investment into our CV3-AD family of automotive AI domain controllers, and we expect the CV3-AD family to be a major revenue driver. So we are pleased to announce our first CV3-AD family wins in the passenger vehicle market, which complements our ongoing wins with CV3-AD family in the commercial vehicle market.

In April during the Beijing Auto Show, we reached a strategic collaboration agreement with a battery electric vehicle ("BEV") company in China. This company will use our CV3-AD AI domain controllers in new passenger vehicle models. This is an important development for us in several regards.

First, measured by the number of EV's delivered in C2023, this OEM is considered one of the top five new electric vehicle companies in China. While most of the OEM's deliveries were in China last year, the company has an impressive plan for the globalization of its business.

Second, Chinese automotive OEMs are aggressively, and successfully, adopting next generation technology into their vehicles, which aligns with our strategy to intersect the safety and autonomy domain with next generation technology, in particular L2+. For example, to improve accuracy, many OEMs in China have aggressively adopted the BEVFormer AI framework for 3D perception tasks in its autonomous driving software stack, and this high-performance framework can leverage to a high degree the unique capabilities in our CV3-AD AI inference processors, including the ability to process transformers at low power.

Third, the efficiency and scalability of our CV3-AD family portfolio is also a major factor in the collaboration with Ambarella, as the OEM can re-use their software on low, mid and high-end vehicles.

In April we added another CV3-AD family win in the commercial vehicle market with the announcement of a strategic cooperation with SANY Corporation. SANY is one of the world's largest engineering machinery manufacturers providing heavy duty commercial vehicles to the global market.

SANY intends to leverage Ambarella's CV3-AD family of automotive AI domain controllers to develop advanced automated driving solutions on its next-generation of commercial and special-purpose vehicles. The companies will collaborate on the joint development and promotion of high-performance and highly integrated automated driving solutions, with SANY's goal of achieving start-of-production for at least one model by calendar year 2025.

At the Beijing Auto show in April, tier 1 Neusoft Reach, announced a strategic partnership with Ambarella. The companies plan to expand on their existing relationship to jointly promote and explore AI-based product technology and market development, in areas including autonomous driving and driver monitoring. Neusoft's third-generation forward-facing intelligent camera, X-Cube 3.0, is powered by Ambarella's CV22 AI vision SoC to target L2+ autonomy levels, and has already been mass-produced and deployed by automotive OEMs.

We are pleased to announce that Seeing Machines, the leading provider of driver monitoring system software, selected our CV25 for its own aftermarket system for commercial vehicles. The Guardian Generation 3 meets the European Commissions' General Safety Regulation for Drowsiness Detection, a requirement for all new cars, vans, trucks, and buses across Europe.

In April, at the ISC West security exhibition, we successfully demonstrated the latest generative AI technology running vision language models ("VLM") on our N1 and CV72 SoCs. Our demonstrations included using the multi-modal VLMs to search video recordings to detect objects defined by text and provide near instantaneous results without the need for training specifically for that object. This capability opens up a whole new range of AI-based search capabilities for enterprise cameras and premise-based AI systems. Our 3rd generation AI inference technology includes the specific support needed to efficiently run these new classes of networks.

During the ISC West exhibition we also announced and demonstrated our new 5nm CV75 AI SoC which provides the performance required to run the latest VLMs as well as AI-based IQ enhancements. These capability to very efficiently run these cutting-edge AI technologies is highly sought after for cost and power constrained AI cameras used in enterprise, smart city, retail store, robotic, access control and AI-enabled consumer devices.

At the Enterprise Connect conference in March, Poly, a leading global provider of workplace collaboration solutions, and a wholly owned unit of HP Inc., launched its Studio E360. This center-of-table system utilizes a single 5nm CV5 for four 8MP cameras with AI inference processing choosing the optimal framing angle for in-room participants.

In Korea activity for our AI SoCs remained high, with leading security camera maker Hanwha introduced new AI models based on our CV22 and CV2 AI SoCs, IDIS introduced CV25 based models, and CPRO introduced dual sensor AI cameras based on CV22.

In the Other IoT market, we are pleased to see our 5nm CV5 AI inference processor being utilized in another consumer camera to significantly improve both image quality and to automate certain user interface functions. Insta360 introduced its X4 action camera in April with dual sensors for 360 degree 8K capture.

In conclusion, I mentioned last quarter our goals are to restore revenue growth and profitability while continuing to drive our strategic R&D priorities. Q1 represented a step in the right direction, most significantly highlighted by our first passenger vehicle win for the CV3-AD family, but the expanding breadth of our CV customer engagements stands-out, and we expect this to build a broad foundation upon with multiple AI applications can drive revenue growth and result in positive earnings leverage for shareholders. The further commercialization and monetization of our technology and products is of upmost importance to us, and I am excited about the opportunities before us and what we will achieve in the years ahead.

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

John Young, CFO

I'll now review the financial highlights for the first quarter fiscal year 2025 ending April 30, 2024. I will also provide a financial outlook for our second quarter of fiscal year 2025 ending July 31, 2024.

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 $54.5 million, 1% above the mid-point of our prior guidance range, up 6% from the prior quarter and down 12% year-over-year.

Non-GAAP gross margin for Fiscal Q1 was 63.4%, above the high end of our prior guidance range by 0.4%.

Non-GAAP operating expense was $46.7 million, approximately $2.6 million higher than the prior quarter and $0.8 million lower than the mid-point of our prior guidance range of $46.0 to $49.0 million, driven by continued expense management and the timing of spending between quarters. We remain on track to our internal product development milestones.

Q1 net interest and other income was $2.3 million.

Q1 non-GAAP tax provision was approximately $607 thousand.

We reported a Non-GAAP net loss of $10.5 million or a $0.26 loss per diluted share.

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

Fiscal Q1 cash and marketable securities decreased $16.6 million from the prior quarter to $203.3 million. Receivables days of sales outstanding increased from 44 days in the prior quarter to 47 days, while days of inventory decreased from 131 to 123 days. Inventory dollars declined 2% sequentially and declined 31% from a year ago. Operating cash outflow was $15.0 million for the quarter. Capital expenditures for tangible and intangible assets were $1.1 million.

We had two logistics and ODM companies representing 10% or more of our revenue in Q1. WT Microelectronics, a fulfillment partner in Taiwan that ships to multiple customers in Asia, came in at 62% of revenue for the first quarter. Chicony an ODM who manufactures for multiple end-customers was 13% of revenue for the quarter.

I'll now discuss the outlook for the second quarter of Fiscal year 2025. We remain confident our business is continuing to recover from the cyclical correction, led by our AI inference products. For Fiscal Q2, we estimate our total revenue will be in the range of $60 to $64 million, we expect sequential growth in both IoT and Auto.

We expect Fiscal Q2 Non-GAAP gross margin to be in the range of 62.5% to 64.0%.

We expect non-GAAP OPEX in the second quarter to be in the range of $47.5 to $49.5 million, with the increase compared to Q1 driven by increased headcount and engineering-related expense including our first 2nm SOC project.

We estimate net interest income to be approximately $1.8 million, our non-GAAP tax expense to be approximately $600 thousand and our diluted share count to be approximately 41.1 million shares.

Ambarella will be participating in Bank of America's Global Technology Conference on Wednesday, June 5th in San Francisco, Mizuho's Technology Conference on June 12th in New York City, and Rosenblatt's virtual Age of AI conference on June 13th. We hope to see you at one of these events. 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 & CEO

Thank you for participating in our call and I hope to see you at an upcoming event.