

August 27, 2024 1:30PM PST

Louis Gerhardy, VP Corporate Development

Good afternoon and thank you for joining our second quarter fiscal year 2025 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 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 second 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.

Before we start the call, I want to note that we will be participating on August 29th in Deutsche Bank's 2024 Technology Conference, September 4th at CITI's 2024 Global TMT Conference, September 17th in Bernstein's 6th Annual West Coast Semis Bus Tour, and September 24th in Evercore ISI's ADAS, AV and AI Summit. We hope to see you at one of these events.

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 second quarter revenue was near the high-end of our guidance range, increasing 17% sequentially. Auto revenue grew slightly sequentially with stronger growth in IoT which represented about 70% of total revenue. We achieved record edge AI inference revenue, which supported a higher blended average selling price (“ASP”) in the quarter.

The mid-point of our fiscal third quarter revenue guidance implies about 24% sequential growth, with double digit sequential growth anticipated for both IoT and Auto. In our last earnings call on May 30th, we expressed confidence in the consensus fiscal year 2025 revenue estimate of \$250 million. At this time, based on customer orders and forecasts, we expect our F2025 revenue growth in the mid to high teens percent versus last year.

I will now provide some additional insight into the gives and takes of our current outlook.

First, our analysis indicates most of our customers have now completed the rebalancing of their inventory of Ambarella SoCs and our revenue in the second half of fiscal 2025 is expected to reflect actual end-market demand.

Second, the overall economic environment is currently a headwind for us. As you have heard, global auto production is forecasted to be down slightly this year, there is an electric vehicle OEM shake-out underway and enterprise and consumer IoT spending is mixed.

So it should be clear there are company specific factors offsetting the headwinds and driving our strong results and outlook. There is rising demand for AI-powered solutions, including AI inference at the edge where we have been investing. Most importantly, we are seeing initial revenue ramps from certain IoT and Automotive customers, especially for our higher priced new products. Our confidence is building in our new products which we expect will lead to new waves of revenue growth in the years ahead.

I would like to clearly define what I mean when I say, “new products.” “New products” include the CV5, CV7 and the CV3-AD families, which are all 5nm, most integrate our 3rd generation AI inference accelerator, and all command above average ASPs.

In this new product group, the first wave of revenue is from the CV5 family, which is ongoing and continues to ramp. We expect to easily exceed 1 million units shipped this year across more than a dozen design wins in IoT as well as automotive.

Our second new product revenue wave is expected from the CV7 family which we expect to enter production at the end of fiscal 2025. The CV7 family also serves both auto and IoT applications, with initial revenue from computer vision applications expected to be followed by revenue from more advanced AI networks, such as CLIP (“Contrastive Language-Image Pre-training”) and vision-language models (“VLMs”).

The CV3-AD family for L2+ and higher levels of autonomy is also in our new product grouping. We remain highly focused on converting multiple OEM and Tier 1 RFIs and RFQs for CV3 into the “won” column, which would be incremental to the Leapmotor and commercial vehicle wins we have previously discussed. We continue to expect the first full year of production for CV3 family in calendar year 2026 (our fiscal year 2027) and growing from there.

Other new products include our 2nm offering, N1, 4D imaging radar perception software and autonomous driving software stack IP, and as the business case for these new products develops, we will provide more information on the timing of their revenue contribution.

Collectively these new products are expected to represent a majority of our incremental revenue growth and they are the primary source of the positive momentum we are reporting. While most of the new product revenue originates from CV5 today, in the years ahead we are anticipating several important waves of new product growth.

I would now like to summarize representative customer activity in the quarter.

During the quarter Rivian introduced the second-generation R1S SUV and R1T pickup truck. These vehicles leverage Ambarella's 5nm CV5 SoC to provide surround view images while driving as well as the gear guard camera function when the vehicle is parked.

Samsara, a leading provider of commercial fleet telematics solutions, has introduced its CM33 front-facing and CM34 dual-facing AI dash cameras. Based on Ambarella's CV22 SoC, both cameras offer advanced road features including lane departure and forward collision warning, and the CM34 also offers driver behavior analysis including mobile, distraction and drowsiness detection.

In the China automotive market, the world's largest, OEMs continued to introduce new models with advanced camera-based features leveraging Ambarella's AI SoCs.

In August, BAIC's joint venture company introduced the Stelato S9 passenger vehicle with an electronic mirror camera monitoring system based on our CV22 automotive SoC.

And new car brand Luxeed, a Chery joint venture, introduced its S7 passenger vehicle including a driver monitoring system based on our CV28 automotive AI SoC.

In Japan, we have started production of a smart rear camera for Honda. Based on CV28, this is available in the Navigation Package option and it provides drive assistance and smart parking including detecting vehicles and lanes behind the vehicle.

I will now review some of the representative customer engagements in our IoT business.

In the enterprise security camera market, European market leader Axis introduced its P12 range of modular cameras with thumb-size, pin-hole and mini dome sensor unit variants. The cameras feature a deep learning processing unit based on our CV25 SoC for advanced analytics.

Also during the quarter, Japanese market leader i-Pro introduced several new CV2 based products. The iPro Corner Camera is based on Ambarella's CV22 and this 5MP camera includes a privacy guard feature for automatic blurring of faces. And the VCR40W is based on the CV25 offering AI features for rear/side cameras targeting public safety vehicles.

In our Other IoT market, we are pleased to see handheld camera manufacturers increasingly require more AI performance to support multiple AI applications while also requiring high resolution (e.g. 4k or 8k) from one or more cameras.

For example, Insta360 has introduced three CV5 products in the last year and recently it also introduced the Go 3S wearable camera. Based on Ambarella's H22 SoC, the camera weighs just 1.4 ounces and includes 4K video, 48MP photos and ultrawide field of view.

And Moultrie, a brand of PRADCO, introduced its Edge 2 Pro Cellular Trail Camera. Based on our CV28 AI SoC, it features 40MP images and a 0.3 second trigger speed.

From these announcements, and the ones in the past, one can see we continue to expand our presence for AI inference at the edge. Our CV2 products represent a vast majority of our AI revenue today, typically addressing computer vision applications for object detection and classification, providing real-time insights for a wide variety of applications.

Looking ahead there is no doubt there is a significant build-out of AI training and inference capacity in data centers for the next generation AI networks. We view this as a positive long-term leading indicator for our edge inference business. In fact, our Auto and IoT customers are increasingly asking us how we can help them with the new advanced AI networks and how they can be implemented at the edge. Relative to AI computer vision, these new AI networks will require significantly higher level of computing performance, and the efficiency we bring to the edge is critical.

For Ambarella, our new products are expected to initially ramp for AI computer vision applications, however beginning with the CV7 family we can also address applications using these more advanced AI networks. Long-term we are optimistic about our significant investment in AI inference and how it positions us to scale to higher value-added products.

Now in the near to intermediate term, Q1 and Q2 were steps in the right direction, and one of our key objectives is to continue to drive revenue growth and achieve profitability, while sustaining the investment in our strategic R&D priorities. We will continue to actively manage our expenses, even though the cyclical downturn appears to be over for us. Our goal is to drive positive earnings leverage in the next year with the anticipated revenue growth.

John will now discuss the Q2 results and Q3 outlook in more detail

John Young, CFO

I'll now review the financial highlights for the second quarter of fiscal year 2025 ending July 31, 2024. I will also provide a financial outlook for our third quarter of fiscal year 2025 ending October 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 Q2, revenue was \$63.7 million, close to the high-end of our guidance range, up 17% from the prior quarter and up 3% year-over-year.

Non-GAAP gross margin for Fiscal Q2 was 63.3%, slightly above the mid-point of our prior guidance.

Non-GAAP operating expense was \$47.7 million, \$0.8 million lower than the mid-point of our prior guidance range of \$47.5 to \$49.5 million, driven by continued expense management and the timing of spending between quarters. We remain on track to our internal product development milestones.

Q2 net interest and other income was \$2.1 million.

Q2 non-GAAP tax provision was approximately \$299 thousand.

We reported a Non-GAAP net loss of \$5.5 million or a \$0.13 loss per diluted share.

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

Fiscal Q2 cash and marketable securities increased \$16.5 million from the prior quarter to \$219.8 million. Receivables days of sales outstanding decreased from 47 days in the prior quarter to 33 days, and days of inventory decreased from 123 to 108 days. Inventory dollars increased 8% sequentially and decreased 12% from a year ago. We generated positive operating cash flow of \$16.7 million for the quarter. Capital expenditures for tangible and intangible assets were \$2.6 million.

We had two logistics companies representing 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 63% of revenue for the second quarter, while Hakuto, a distributor in Japan, was 10% of revenue for the quarter.

I'll now discuss the outlook for the third quarter of Fiscal year 2025. As Fermi described, company specific factors, in particular our new product ramps, are providing us with solid visibility into the second half of Fiscal 2025. For Fiscal Q3, we estimate our total revenue will be in the range of \$77 to \$81 million, with sequential growth in both IoT and Auto.

We expect Fiscal Q3 non-GAAP gross margin to be in the range of 62.5% to 64.0%.

We expect non-GAAP OPEX in the third quarter to be in the range of \$49.0 to \$51.0 million, with the increase compared to Q2 driven by increased headcount and project-related engineering expenses.

We estimate net interest income to be approximately \$1.8 million, our non-GAAP tax expense to be approximately \$500 thousand and our diluted share count to be approximately 41.7 million fully diluted shares.

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.