

Lantronix, Inc.

First Quarter Fiscal 2025 Results Conference
Call

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CORPORATE PARTICIPANTS

Saleel Awsare - *Chief Executive Officer*

Brent Stringham - *Chief Accounting Officer and Interim Chief Financial
Officer*

Casey Kotary - *Investor Relations Representative*

PRESENTATION

Operator

Good evening, and welcome to the Lantronix First Quarter Fiscal 2025 Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad, to withdraw your question, please press "*" then "2." Please note, this event is being recorded.

I would now like to turn the conference over to Brent Stringham, Chief Accounting Officer and Interim Chief Financial Officer. Please go ahead.

Brent Stringham

Good afternoon and thank you for joining our quarterly earnings call. Joining me on the call today is our President and Chief Executive Officer, Saleel Awsare. A live and archived webcast of today's call will be available on the company's website. In addition, you can find the call-in details for the phone replay in today's earnings release.

During this call, management may make forward-looking statements, which involve risks and uncertainties that could cause our results to differ materially from management's current expectations. We encourage you to review the cautionary statements and risk factors contained in the earnings release, which was furnished to the SEC today and is available on our website and in the company's SEC filings, such as its 10-K and 10-Qs. Lantronix undertakes no obligation to revise or update publicly any forward-looking statements to reflect future events or circumstances.

Please refer to the news release and the financial information in the investor relations section of our website for additional details that will supplement management's commentary. Furthermore, during the call, the company will discuss non-GAAP financial measures. Today's earnings release, which is posted in the investor relations section of our website, describes the differences between our non-GAAP and GAAP reporting and presents reconciliations for the non-GAAP financial measures that we use.

With that, I'll now turn the call over to Saleel.

Saleel Awsare

Thanks, Brent, and thank you, everyone, for joining us on the call today. We reported revenue of \$34.4 million for the first quarter of fiscal 2025, which was up 4% compared to the same quarter last year. Non-GAAP EPS in fiscal year Q1 was \$0.06. Brent Stringham, our Interim CFO, will provide more details on the first quarter financial results shortly.

On the call today, I would like to highlight three topics with you. Our recently announced acquisition of NetComm's IoT product line, the progress we are making in our collaboration with Qualcomm in Edge AI, and our strategic focus on investing in areas where we can differentiate and demonstrate IoT leadership while continuing to emphasize operational efficiency and cost savings.

First, our purchase of NetComm's IoT product line for \$6.5 million in cash fits very well with our compute and connect strategy. It strengthens our Connect offerings by providing our customers

with leading-edge IoT solutions. The acquisition expands our portfolio in gateway, routers and modems including the latest 5G products, enhancing our Edge Compute solutions.

It also adds new blue-chip enterprise customers for additional cross-selling opportunities and opens target-rich unserved geographic markets for our products, such as Australia and New Zealand. In calendar year 2024, the NetComm products are expected to generate approximately \$6 million to \$7 million in revenue and the acquisition is expected to be immediately accretive to EPS.

In summary, this transaction improves our competitive position in the cellular gateway market, reduces our R&D requirements for the development of 5G IoT gateway and router line, and contributes additional revenue to our Enterprise business. The deal is expected to close in November, subject to customary closing conditions.

Second, on the topic of Edge AI. I'm very pleased to report the last four months have been very productive in our engagement and strategic collaboration with Qualcomm for AI and Machine Learning. We delivered on three milestones recently, including:

First, we are thrilled to announce the signing of a development agreement with Qualcomm to advance their Graphical Composer Tool to accelerate new Edge AI applications. What we are doing is optimizing Qualcomm's AI Hub Toolkit to manage complex AI workflows, making it easier for end-users to do AI modeling. The collaboration with Qualcomm demonstrates our ability to deliver scalable, high-performance AI solutions for our partners, customers, and the AI ecosystem.

Second, we are expanding our offerings in the smart city vertical by successfully launching the first AI-enabled edge computer gateway called SmartLV in collaboration with Qualcomm. Our SmartLV gateway, which deploys the IQ-615 processor, was designed specifically for low voltage substations and the next generation smart grids, utilities, and other industrial applications. SmartLV provides operators with real-time management of their networks, enabling them to deliver energy on demand while ensuring network stability during periods of peak loading.

And third, earlier this month, we announced five new system in package solutions based on the latest Qualcomm processors. These new SIPs and SOM solutions work at the edge of the network and help to accelerate the development of AI applications in the enterprise and industrial markets, such as video surveillance, robotics, and industrial automation. As AI moves to the edge, we are positioning ourselves to lead not only with Qualcomm-based system and package solutions, but also our gateway hardware and software solutions. We have differentiated IP development capabilities, and we are a Western-based supplier.

While this will take time, we expect to see momentum in this area in 2026 and beyond. Together, these achievements with Qualcomm allow us to lay the foundation for a long-term strategy to become a key player in the edge AI ecosystem, driving innovation and delivering end-to-end solutions that address the evolving needs of industries, transitioning to an AI-powered, edge-centric architecture.

And finally, we are implementing initiatives to drive business focus, improve operating efficiency, and enhance future profitability. Specifically, we are in the process of streamlining our product portfolio. Going forward, we will not be making future investments in some non-core products, such as our Wi-Fi and GNSS modules. These lines are smaller contributors to our top line, and

we want to direct our development resources on core growth areas where we provide differentiation and leadership.

We are in the process of moving from seven sites globally to four centers of excellence, providing scale and efficiency. With these initiatives and others already identified, we expect to reduce our fiscal year '25 operating expenses by approximately \$4.5 million relative to fiscal year '24, and we expect these initiatives to be fully implemented by the end of March 2025.

In conclusion, we remain focused on the megatrend of enabling edge intelligence with our compute and connect solutions, allowing our customers to improve their real-time decision-making while increasing their operational efficiency. And we are continuing to focus on profitable growth, cash generation, and making the right investments that help scale the business into fiscal year 2026 and beyond. We will continue to look for acquisitions that complement our core strategy as demonstrated by a pending NetComm acquisition.

Overall, I'm very pleased with our accomplishments this quarter, including the acquisition of NetComm's IoT product line, our progress with Qualcomm and Edge AI, and our focusing of our product portfolio and improving our operating efficiency.

With that, I will now turn the call over to Brent Stringham, our Interim CFO.

Brent Stringham

Thank you, Saleel. I will review the financial results and some business highlights for our first quarter of fiscal year 2025 before commenting on our financial outlook for the second quarter of fiscal 2025. For FQ1 2025, we reported revenue of \$34.4 million, which was at the lower end of our guidance range. As expected, sequentially, revenue was down from the record revenues we reported last quarter, which included relatively high shipments to our smart grid customer to support its initial deployments. On a year-over-year basis, FQ1 2025 revenue was up 4%.

Embedded IoT solutions revenue increased by 18% from both the sequential and year ago periods. Sequentially, the increase was primarily driven by growth from a large enterprise video conferencing customer.

IoT system solutions decreased by 47% and 1% from the sequential and year-ago periods respectively. The sequential decrease was largely driven by the expected reduction of approximately 16 million in shipments to our large smart grid customer, and a large federal government agency order, which did not materialize as originally expected. We expect this to be fulfilled incrementally in the coming quarters.

Software and services were up 8% sequentially and lower by 13% from the year ago quarter as products have moved into production. GAAP gross margin was 42.1% for FQ1 2025 compared to 38.1% in the prior quarter and 42.7% in the year ago quarter. Non-GAAP gross margin was 42.6% for FQ1 2025, compared to 38.8% in the prior quarter and 44% in the year ago quarter.

As expected, gross margin improves sequentially as we did not experience similar inventory related charges as in the previous quarter. We expect gross margin percent to remain in the low 40s range.

GAAP SG&A expenses for FQ1 2025 or \$9.5 million compared with \$9.2 million in the year ago quarter and \$11.1 million in the prior quarter. The sequential decrease was largely due to lower variable and share-based compensation owing to lower revenue levels.

GAAP R&D expenses for FQ1 2025 were \$5 million, compared with \$5.1 million in the year-ago quarter and \$5.3 million in the prior quarter. GAAP net loss was \$2.5 million, or \$0.07 per share, during FQ1 2025 compared to GAAP net loss of \$1.9 million or \$0.05 per share in the year ago quarter. Non-GAAP net income was \$2.3 million or \$0.06 per share during FQ1 2025 compared to non-GAAP net income of \$2.5 million or \$0.07 per share in the year ago quarter.

As Saleel mentioned earlier, the streamlining of our product portfolio and site consolidation is allowing us to reduce our operating costs. These activities are underway, and we expect will result in quarterly non-GAAP OPEX in the range of \$11.25 million to \$11.75 million for the balance of the fiscal year. For the full year, we expect to reduce our non-GAAP operating expenses by approximately \$4.5 million relative to fiscal 2024.

Now, turning to the balance sheet. We ended FQ1 2025 with cash and cash equivalents of \$26.4 million, relatively flat with the prior quarter, and we generated positive operating cash flow of \$2.7 million. Net inventories increased slightly to \$29.5 million as of FQ1 2025, as compared to \$27.7 million in the prior quarter.

Now turning to our outlook. For the second quarter of fiscal 2025, we expect revenue to be in the range of \$29 million to \$33 million. We're expecting sequentially lower revenue in FQ2 primarily due to lower volume from our largest automotive customer in Turkey and slightly lower activity in our enterprise vertical market.

As a result, we're expecting non-GAAP EPS in a range of \$0.01 to \$0.05 per share in FQ2. This guidance for FQ2 does not include any contribution from the purchase of NetComm's IoT product line as we have not yet closed the acquisition.

With that, we complete our prepared remarks for today. So, I'll now turn it over to the operator to conduct our Q&A session.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

Our first question is from Christian Schwab with Craig Hallam. Please go ahead.

Tyler

Hey guys, this is Tyler on for Christian. Thanks for letting us ask a couple questions here. So maybe first off, some push-outs in some federal projects in Q1 and it sounds like some potential headwinds from your large auto customer in Q2. It sounds like some of that should hopefully come back in the second half. I guess, any help just kind of maybe bracketing what type of growth or recovery or pickup, we could potentially be thinking about in the second half of the fiscal year.

Saleel Awsare

Hey, Christian. This is...well, I guess Tyler, Saleel here. Thanks for the question. For the...this quarter as we guided specifically, we're seeing slowdown in our largest automotive customer

and they're in Turkey and there's some slowdown in the consumer spending and rebates and a little bit of enterprise vertical market slowdown, but that's slight. So, as I think about the rest of the fiscal year, we've got a number out for next quarter. We don't guide the rest of the year, but we start to see improvements sequentially as we go through the rest of this fiscal year Tyler.

Tyler

Alright, that's great. Maybe then, you know, the smart grid opportunity it's normalized here from your large customer. And, I think in the past we talked about, that opportunity having a long tail on it, but also having, some additional, other smart grid opportunities. I think, potentially in the United States or other places. I guess, any update on those opportunities and how those are tracking.

Saleel Awsare

Yes, sure, Tyler. Saleel here again. So, I was just in Europe about four weeks back. Met with the leadership of our largest partner company there. The deployments in Italy are ongoing. And as we said, this calendar year, we shipped quite a lot of products, so they're going to deploy them. So, that's moving along as expected. Now, the thing that excites me for the longer term is we've got now...we set a POC in North America. There's another one I've been told that's going to be starting in the State of Massachusetts. So that's the second one. Then we are also seeing them going into the Latin American market. So, there is some traction and also getting into other areas in Europe. Now these take some time, but the good news is the device is ready, and it was...it's been shown at all the shows. You might have heard of Enlid Europe. It was shown there, the [indiscernible] showed that.

In addition, we even showed our own SmartLV product, that is a lower...for the low voltage grid in collaboration with Qualcomm at the same show. So we believe this is a long term area that we are going to invest in and see good growth in, in the longer term.

Tyler

Great. And then maybe last one here. Good to hear some of the progress you're making right with your Edge AI partnership with Qualcomm. Just wondering, any of these signed development agreements with them or any of these things have any monetary connection to them? And if so, if you could, I guess quantify those to any degree, or how we should think about those going forward. Thanks.

Saleel Awsare

Yes, so we, and we put three specific things that we did with Qualcomm. We don't talk about specific dollar amounts on this, any development agreement that we have signed with them, but you can be rest assured, we're going to it's collaborative with them and we're not sharing a dollar amount, but yes, we are providing services that enable us to improve upon their AI hub that they've developed, allowing end customers to develop products faster. So, we're doing a small portion of their whole AI hub, but we are uniquely doing that for them.

Tyler

Sounds great. Alright, that's all for us. Appreciate it, guys.

Saleel Awsare

Thanks Tyler.

Operator

The next question is from Ryan Koontz with Needham. Please go ahead.

Ryan Koontz

Hi, thanks for the question. I want to ask about your acquired NetComm business here. What do you see as the synergies with what you're already doing in terms of the...your Qualcomm partnership? And how do you think about the channel relationships that come with that? Are they additive are they synergistic and can kind of walk me through both the kind of product structure and the business structure if I think about that folding into your business. Thank you

Saleel Awsare

Hey, Ryan great question and thank you for asking that. So, we believe we really bought well, the acquisition adds brand new 5G IoT gateways and routers to our portfolio. And in addition, it complements what we've had. So that's a great add to us, and it gives us 5G ready to go now. They have some great customers that we were not engaged with, and they are blue-chip enterprise customers. And as time goes on, we'll give you more details. So, there's great opportunity there for us. Not only for the NetComm products that we acquired, but some of our other enterprise products that we could sell in there, right? So, there's going to be some cross-selling. Giving you an example, they have a large MNO, mobile network operator. And we believe this brings us a great opportunity to sell a lot of our stuff like our out-of-band products, just to put it in perspective.

Secondly, we said the revenue was in the \$6 million to \$7 million rate for this calendar '24. I expect this to grow 20% into calendar '25 and beyond. We see that really there.

And on the cost side, which was a great question you asked. We are absorbing a very small team since it's accretive. And once NetComm is integrated, we can leverage our own capability to support the growth. So. I want to be very crisp and clear that this is not something that's not in our portfolio. We have a few products. This augments it. It adds revenue. It adds customers and makes us a lot stronger in this space. Does that give you a good perspective?

Ryan Koontz

Yes. I guess from a channel perspective, will you use your existing channels? Are they bringing their own channel relationships? What's going on there?

Saleel Awsare

Yes, great question. So, I'll add to that. They are bringing some channel relationships, and we will be taking those channel relationships over. And what I didn't address is, they're also bringing Australia, which is a pretty decent market for IoT, which is underserved by us completely. So, that also helps us from that perspective. So, they bring channel. And then the other thing we can help there is on the cost structure, right? They're bringing in some of the suppliers. We work with them also already. So that's going to allow us to get some costs squeezed out of it.

Ryan Koontz

Got it. And if we could kind of click back to your Edge AI development. It sounds like this is pretty new and kind of a longer wavelength project, so maybe not a big impact in '25, but what sorts of applications and verticals are like your low-hanging fruit here that you're looking at that can kind of fit with your expertise.

Saleel Awsare

Yes. With our strategy, it's really focused...and you're right, it's a longer-term thing. We expected fiscal '26 and beyond, which is not really that long. But if you think about where we

are at, enterprise area, videoconferencing, and you know this, Ryan, you and I have spoken before, where having a model, improving the quality, both on video and audio is a perfect example. In the grid area, again, making sure which is a part of our smart cities vertical, this goes after the low-voltage portion of it gives you that. And then, frankly, robotics, drones, industrial applications, and all the applications that I mentioned, us being a Western-based supplier is also very important because we are both TAA and NDAA certified.

Ryan Koontz

When you say robotics, you're thinking like factory floor kind of stuff?

Saleel Awsare

That's right. Automation. And frankly, we have introduced a few products. I believe '26, we will start to see some green shoots on this. So, it's not too long away. But...and we're putting a lot of effort into it. And I'm feeling really good with our work that we're doing with Qualcomm.

Ryan Koontz

Okay. And just a clarification, if we could, on your big smart grid customer in Europe. Did you mention kind of what your outlook looked like for that over the next few quarters?

Saleel Awsare

We mentioned for the first half of fiscal '25, which is as of end of December, that we would ship around \$10 million, and we are on track to do that. Moving forward, we are not going to be getting into that granularity, Ryan. But as I answered an earlier question, they are working on other projects with the same device, and they need to finish their deployments in Italy. So, this, as I said, is a long tail partnership, the way I think about it.

Ryan Koontz

Yes. It sounds largely on track, what you talked about before. Okay.

Saleel Awsare

Yes, nothing to report there.

Ryan Koontz

Great. And you mentioned on the enterprise slow down, that was more federal? Where you were feeling some pushouts, you said?

Saleel Awsare

Yes. It was...I would say it's mainly around our government...a little bit on the government side, but also some of our insurance and banking customers have been a little careful with the spend as they think about the future. But maybe that's where we saw the slowdown. The federal one was specifically for last quarter. I'm just talking about the moving forward.

Ryan Koontz

Yes. Perfect. So, that's all I got. Thank you very much.

Saleel Awsare

Thank you, Ryan.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Saleel Awsare for any closing remarks.

CONCLUSION**Saleel Awsare**

Thank you, everyone, and talk to you next quarter.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.