Lantronix

Fiscal Q1 '27 Earnings Call

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CORPORATE PARTICIPANTS

Saleel Awsare--*President and Chief Executive Officer*

Brent Stringham--*Chief Financial Officer*

PRESENTATION

Operator
Good afternoon, and welcome to the Lantronix Fiscal Q1 '27 Earnings Call. [Operator Instructions] Please also note, today's event is being recorded.

I would now like to turn the floor over to Brent Stringham, Chief Financial Officer. Sir, please go ahead.

Brent Stringham
Good afternoon, everyone, and thank you for joining our fiscal first quarter earnings call. Joining me 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, we may make forward-looking statements which involve risks and uncertainties that could cause our results to differ materially from current expectations. We encourage you to review the cautionary statements and risk factors contained in today's earnings release, which was furnished to the SEC and is available on our website, and other SEC filings such as our 10-K and 10-Qs. Lantronix undertakes no obligation to revise or update publicly any forward-looking statements to reflect future events or circumstances.

Additionally, during the call, we 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 will now turn the call over to Saleel.

Saleel Awsare
Thanks, Brent, and thank you everyone for joining today's call. We entered fiscal 2027 from a position of strength, and our first quarter results reflect that momentum. Revenue grew over 8% year-over-year to $32.4 million. Non-GAAP gross margin expanded about 45%, and non-GAAP net income increased 50% to $2.2 million, or $0.05 per share, reflecting continued solid execution across the business.

Embedded IoT solutions revenue grew 37% year-over-year in the first quarter, driven by continued strength in unmanned systems, a high-growth market where our edge compute platforms are gaining traction. We remain on track for unmanned systems to comprise approximately 15% to 20% of total revenue this fiscal year.

Our confidence is supported by new design wins across a growing number of applications. As an enabling technology provider, we are positioned to participate in multiple customer programs and platforms rather than relying on the success of any single deployment.

Combined with our status as a Western supplier and our NDAA- and TAA-compliant solution, this positions Lantronix as a long-term platform partner. Reinforcing that platform position, we added our Open-Q 8550CS SOM to the Blue UAS Framework last month, which identifies vetted components for use in unmanned aircraft systems. This is a key competitive differentiator and gives customers an independently vetted compute platform that simplifies qualification and accelerates deployment.

For current and prospective customers, this reduces qualification complexity and program risk while strengthening our position as a trusted technology partner. It also lays the foundation for bringing additional Blue UAS-ready platforms to market.

Building on that momentum, we recently launched Spotter at AUSA in Washington, D.C., where we also met with existing and prospective partners. Spotter brings edge AI compute, vision processing, sensor fusion, and vehicle flight control onto one low-power board.

By consolidating functions that OEMs might otherwise source and integrate separately, it can simplify system development for autonomous drones and robotics. Instead of piecing together separate flight controllers, vision boards, and compute units, OEMs get an all-in-one, off-the-shelf reference and deployment platform that supports open-source robotic stacks.

Importantly, the underlying technology also positions us to address unmanned systems beyond our current drone class across air, sea, and ground. Beyond the hardware, our deep camera and software integration expertise gives us another key competitive advantage. Advanced computer vision and autonomous platforms require more than processing power. Customers need cameras and sensors to work together reliably, not just connect to a processor.

We bring years of experience tuning cameras, fusing sensors, and integrating complex software for demanding image and vision applications. Our work across the software stack allows us to integrate a range of customer-selected sensors. This creates opportunities for high-margin engineering services and software revenue as their programs evolve.

When a customer designs a Lantronix SOM into their platform and integrates our custom firmware and software, we become deeply embedded in their product architecture, supporting longer-term customer relationships and next-generation platforms across the commercial and defense markets.

We are also seeing new opportunities in counter-UAS application, where operators are increasingly repurposing low-cost first-person view, or FPV, drones to detect and intercept hostile drones. These missions require onboard compute to process sensor data and support real-time edge-based decision-making, included in contested environments directly supporting our NDAA-compliant platforms.

We are also seeing increasing traction in unmanned systems outside North America, with activity progressing across Eastern Europe, Australia, and Japan. Importantly, the opportunity for our technology extends well beyond drones and defense. We are increasingly leveraging these same capabilities across commercial and industrial computer vision applications, and we are seeing that traction translate into new design wins.

Two recent wins for our edge compute solutions highlight this expanding opportunity. The first is with Trimble, where we power their advanced surveying equipment that incorporates multiple cameras and laser technology. The second is with a leading provider of job site security solutions, where our solution enables smart security cameras, providing 360-degree job site intelligence.

Both opportunities highlight the importance of delivering high-performance computing in compact form factors. Our technology helps customers extend battery life and reducing operating costs while directly supporting job site security and safety.

In addition, we are providing high-margin design services for this engagement, driven by our deep knowledge and expertise in computer vision, expanding the opportunity beyond the hardware. Together, these wins show how we are translating our unmanned system success into opportunities across adjacent markets.

The same computing capabilities driving our success in unmanned systems are increasingly relevant across industrial, construction, and other edge AI applications, expanding our addressable market and creating additional pathways for growth.

Turning to IoT system solutions, we are expecting sequential revenue growth driven by a strength in our networking products, supported by improving order trends. In out-of-band management, we are building on our SambaNova win and seeing growing interest from other customers deploying AI infrastructure. As these deployments expand, reliable network access to critical networking and compute equipment is becoming increasingly important, particularly when primary networks are unavailable.

We believe this is a broader opportunity for our out-of-band solutions as customers manage more complex AI and data center environments while reducing costly on-site service visits. Turning to critical infrastructure and software services, we closed the Nero Global acquisition during the first quarter. Importantly, Nero's high-margin recurring revenue has increased our software and service mix to more than 10% of the total company revenue on a pro forma basis.

Further advancing our strategy of building a more predictable, high-margin revenue base. Finally, before turning the call over to Brent, I would like to highlight a couple of additional steps we are taking to strengthen our position across key markets, including adding relevant expertise to our board and expanding our engagement with industry and government stakeholders. We welcome Jason Lamb as an independent Director.

Jason is a former U.S. Navy SEAL officer and defense technology executive with over 20 years of experience across special operations, technology development and investing. His perspective at the intersection of national security, autonomous systems, and commercializations will be valuable as we scale our unmanned system business.

Alongside this addition to our board, we are also taking steps to strengthen our presence in Washington and deepen our engagement with the government and industry stakeholders. We have engaged a government advocacy firm to elevate Lantronix's profile and increase awareness of our broader portfolio of differentiated technologies and solutions, including the edge compute and networking products we provide to federal customers.

In summary, I am encouraged by our strong start to Fiscal 2027. Our success in unmanned systems continues to validate our technology and execution, while new design wins in computer vision and other intelligent edge applications demonstrate the opportunity to extend that success into additional markets. And with software and services about 10% of pro forma revenue, we benefit from predictable, high-quality revenue.

With that, I will turn the call back to Brent to cover the financial results.

Brent Stringham
Thanks, Saleel. As we mentioned, our business is off to a strong start as we begin Fiscal 2027. I'll start by discussing our first quarter financial results, including key drivers of our performance

and then provide our outlook for the second quarter ending December 31st, 2026. Revenue for the first quarter was 32.4 million, up sequentially and year-over-year.

The growth in our embedded products was driven by strength in our compute family, with unmanned systems revenue performing strongly this quarter. IoT system solutions was softer sequentially in the first quarter, although we continue to see encouraging demand indicators in parts of the business, specifically around networking and enterprise AI.

It's also important to put the year-over-year comparison in context. Last year's results benefited primarily from meaningful shipments to our lead Tier 1 mobile network operator customer. As we've previously discussed, those volume shipments were substantially completed several quarters ago.

Turning to our gross margins, GAAP gross margin for the first quarter was 44.8%, up from 43.7% in the prior quarter and flat with Q1 last year. On a non-GAAP basis, gross margin was 45.3%, up from 44.1% in the prior quarter and consistent with the year-ago period. Although our product mix this quarter was more heavily weighted toward our embedded solutions and compute products, gross margins improved sequentially.

Reflecting higher margin recurring revenue from Nero, operational initiatives and disciplined cost management. Based on these trends and our forecasted product mix, we expect gross margins to remain at or near recent levels in the near term. As we discussed in last quarter's call, we continue to monitor our overall supply environment, where demand from AI infrastructure and data centers is pressuring memory availability and pricing across the embedded compute market. This remains an industry-wide dynamic.

Through our production model and diversified manufacturing partnerships, we believe we are well-positioned with our supply needs over the near and medium term. Looking at our expenses and profitability, GAAP operating expenses in the first quarter of fiscal 2027 were $15.1 million, up from $14 million in the prior quarter and nearly flat versus the year-ago quarter.

On a sequential basis, we saw a predictable uptick in our GAAP OpEx, driven by stock-based compensation, amortization of new intangibles, and acquisition expenses from the Nero acquisition, as well as modest increases in certain go-to-market and R&D costs. GAAP net loss for the first quarter of fiscal 2027 was $463,000, or $0.01 per share, compared to GAAP net loss of $1.4 million, or $0.04 per share, in the year-ago quarter.

On a non-GAAP basis, net income was $2.2 million, or $0.05 per share, an improvement compared to $1.8 million, or $0.04 per share, in the prior quarter, and $1.5 million, or $0.04 per share, in the year-ago quarter. Turning to our balance sheet, in the fourth quarter of fiscal 2026, we raised a little over $44 million in net proceeds through our public and ATM offerings.

We continue to focus on efficiently allocating capital in R&D, go-to-market, and strategic M&A in a disciplined and opportunistic manner. Additionally, as of the current quarter end, we have invested a portion of the proceeds into highly liquid, government-backed short-term marketable securities to improve the yield on these assets.

During the current quarter, we outlaid approximately $10.3 million for the purchase of Nero Global Tracking, with the $1.3 million remaining purchase price expected to be paid before the end of December 2026. As of September 30th, 2026, our total cash and cash equivalents plus short-term marketable securities approximated $51.5 million. During the current quarter, our net

inventories increased from approximately $26 million as of June 30, 2026, to $31 million as of September 30, 2026.

This reflects a strategic decision we made in anticipation of extended lead times to place orders for SOMs and memory, as well as to build buffer stock, positioning us to meet expected demand in upcoming quarters. Finally, let me provide our outlook for the second quarter of our fiscal 2027, which ends December 31st, 2026. We expect revenue to be in the range of $32.5 million-$34.5 million, reflecting double-digit year-over-year growth.

Non-GAAP net income is expected to be in the range of $1.8 million to $2.7 million, or $0.04-$0.06 per share. With that, I'll now turn it back to Saleel for closing remarks.

Saleel Awsare
Thanks, Brent. In closing, we are off to a solid start to fiscal 2027. We grew revenue over 8% year-over-year, and non-GAAP net income increased 50%. We continue to execute on our strategic transformation, advancing further up the technology stack and combining compute, connectivity, computer vision, physical AI, and software and services to create differentiated, higher-value solutions at the intelligent edge.

Our success in unmanned systems is increasingly catalyzing expansion into adjacent growth markets, including industrial automation, autonomous robotics, and edge AI applications. We believe our capabilities position us to capture a growing share of these large and expanding opportunities.

We are also strengthening our software and services portfolio, which is helping us build deeper customer relationships, increase recurring revenue, and improve the predictability and quality of our business over time.

While it is still early in the fiscal year, continued execution, the diversity of our business, and a growing pipeline of customer opportunities reinforce our confidence in the trajectory of the business. We believe we are well-positioned to deliver double-digit revenue growth this year while continuing to build a more scalable and profitable company.

With that, operator, let's open the line for questions.

QUESTION AND ANSWER

Operator
At this time, we will begin the question-and-answer session. [Operator Instructions]. Our first question today comes from Scott Searle from ROTH Capital. Please go ahead with your question.

Scott Searle
Hey, good afternoon. Thanks for taking the questions. Nice job on the quarter. Nice outlook as we start off fiscal 2027. Saleel, maybe to start diving in on the unmanned and drone front, I wonder if you could provide some metrics in terms of book-to-bill, maybe diversity of the customers, or how you're feeling in terms of doubling the drone-related revenue in fiscal 2026 as we look out to this year?

I was hoping you could expand a little bit as well in terms of the opportunity of non-drone, non-unmanned systems in job site, industrial, and other applications that you're starting to see some of that traction. What could that look like in fiscal 2027?

Saleel Awsare
Scott, thank you for the question. Let me start with your drone question as we spoke about. And I'll give you some specific metrics so you can get a feel for what we are doing. We are four months into the fiscal year as of today, and we have secured orders with 29 customers for fiscal 2027. Customer orders obviously follow program schedules and deployment needs.

There are many more customers in the design phase that we are developing solutions for. So the 29 that I mentioned earlier, we have POs from them that we intend to ship, so therefore the number is going to be much higher as the year progresses. We don't specifically disclose quarterly drone revenue, but our expectations remain for unmanned systems to be 15%-20% of the total revenue in fiscal Q1.

And then, by the way, in fiscal Q1, the revenue was well within that mentioned range of 15%-20%. So all in all, quite well. Let me talk a little bit about the international area where you talked about beyond the U.S. So current customers are across EMEA mainly, and then starting in APAC. Out of the customers that I mentioned, the 29 that we have POs for, 14 of them are international. We are seeing interest in North America, Ukraine, beyond North America, in Ukraine, U.K., Australia, Japan. Those are the areas that we see.

I hope I covered the drone question to your understanding. Let me talk about the other two applications that we announced, and I am really excited about them. We are getting to be known as the go-to company for computer vision, because we uniquely put together our deep camera expertise, our ability to integrate cameras, sensors into a working solution. I was very happy to announce Trimble, a multi-billion dollar company that is using our product, including, and I would say a solution.

So it is our SOM plus services to power their advanced surveying equipment, and it has got multiple cameras, including lasers. So we have really done a fair amount of work around that. The second one is a provider of job site security, where the solution really enables smart security cameras providing 360-degree job site security and safety.

The reason they use edge AI is because they want to be able to communicate with the person on a ladder or what have you, telling them, okay, maybe it is unsafe behavior. It is edge compute really that you are talking about. We talk about physical AI. These are all physical AI applications that Lantronix is enabling.

Scott Searle
Very, very helpful. Thank you. Maybe if I could switch gears over to the Out-of-Band management front. It is not something we talked about a lot in recent quarters, but it seems like that is stabilizing and starting to grow. I wonder if you could calibrate us in terms of what the kind of annualized size of the business is right now, and what is driving some of the opportunities. How should we think about growth in fiscal 2027 for that segment? Thanks.

Saleel Awsare
Yeah. Scott, thank you for that also. We are seeing growth of Out-of-Band mainly driven in two areas. One is the traditional Lantronix business, which is doing fine with the introduction of the SLC 9000. Us introducing a brand new product has been very helpful, and now customers are starting to adopt. Second one, I have talked about a win with SambaNova on their SN40 platform, where we are in their rack.

We are seeing traction with them as they expand, obviously. More importantly, we are now starting to work with a couple other vendors where they are aggregating our product, our Out-of-Band product that sits on top of a rack, with other devices from companies like Arista and Cisco. Early days, but good trends as I think about the future.

Scott Searle
Great. Thank you.

Saleel Awsare
Thanks, Scott.

Scott Searle
I will get back in the queue.

Operator
Our next question comes from Austin Bohlig from Needham. Please go ahead with your question.

Austin Bohlig
Hey, guys. Thanks for taking my question, and congrats on the great results. Saleel, first question for you, and I know it's a little bit fresh, but just following the midterm elections, just curious if you guys have had any conversations with some of your key customers and how that may impact kind of the out year of their order activity?

Saleel Awsare
Yeah. Austin, as you said, it's really fresh. So far, it's been less than a week. So far, so good. As I said, we have got all our orders that I talked about are NCNR, so it's not that they can cancel those orders, and we are working with them. About close to half of our customers that we intend to ship to in this fiscal year that we have told you are international ones. Additionally, we have got a long slew of other customers we are working with for defining, developing solutions for. So all in all, I feel good sitting here today.

Second thing, Austin, which is also important, we have brought on some advocacy folks starting October 1st to make sure Lantronix is top of mind irrespective of what's happened in the midterm. The folks we work with have worked on both sides of the aisle, and you will be seeing some announcements as we think about the future. So all in all, looking good so far.

Austin Bohlig
Okay. Correct me if I am wrong, but with this new product with Spotter, it seems like with enhanced capabilities likely comes with higher ASPs. So I am just curious, as some of these key customers ramp, are you guys expecting these maybe higher performing modules to accelerate, which will help maybe drive ASPs across the portfolio?

Saleel Awsare
Yeah. Thank you for that question, Austin. So, our ASPs, and this has been well known, are, you know, for the system on module today, are $300 on the low side, as high as $700 on the high side, depending on how many TOPS and functionality we have. I believe you had the opportunity to see Spotter at AUSA. It's going to be on the higher end, because what it does is extend their offering beyond the SOM. It combines compute with other functions on one single board.

And in addition, we are also supporting flight control, as I mentioned in the past. With Spotter being the flight computer, all the customer really needs is a drone frame to fly it. So -- and I want

to be very clear, Spotter is the first of a planned family of boards that we are going to be making, because the reception after AUSA has been tremendous.

Customers have been asking us, and, you know, they want to start early POCs with it. We won't be shipping till end of the calendar year, but we are off to a good start, and we are going to be showing it in its full form at CES in early January. So, Spotter is going to be a great product, and it's really done with working with our customers, with the key point being how fast we can get them to market. That's all it's all about, getting our customers into production quickly.

Austin Bohlig
Okay. And then, I guess just last question for you, Saleel. How should we be thinking about the M&A strategy going forward, and if there is any more kind of actionable things in the hopper?

Saleel Awsare
Yeah. Austin, so we've been very clear and disciplined about M&A, and I think Brent mentioned that. Two areas, things around edge compute and unmanned systems, and recurring revenue. And those are the things that we are focused on. We have a robust pipeline that we are working through. So, you know, stay tuned is all I can say. But again, we have the ability to do some decent M&As in the future.

Austin Bohlig
All righty. Well, thank you guys, and keep up all the great work.

Saleel Awsare
Thank you.

Operator
Our next question comes from Josh Sullivan from Jones Trading. Please go ahead with your question.

Josh Sullivan
Hey, good evening. Just how does Lantronix win as drone customers look to consolidate the supplier base? You know, we had this explosion of the supply chain over the last 2 years, you know, but it seems there's a desire by the customer base to consolidate, or at least the consolidation phase add. You know, if I look at Spotter or some of these other products you're talking about, you know, what are you seeing from customers that are looking to reduce supplier complexity, and then, you know, how you guys get in front of that?

Saleel Awsare
Yeah. Josh, our first mover advantage is really helping us. We have become the, in my mind, the go-to company for, I would say, anything that's not an NVIDIA solution today, using our Qualcomm partnership to go after solutions in the market.

So -- and couple of the things that we've done from a, if you think about how I think about it, we've procured memory, we've procured SOMs. So as the customers want to ramp up and they want to ramp up quickly, they'll be able to work with us for the longer term. Number two, we're not just providing a one-off product. We are providing you a family of products, anywhere from eight to 10 TOPS to 100 TOPS, with a different variety of ASPs.

Number three, with the Spotter technology, that is also going to be a family of flight computer boards, a single board computer to go do this. We are in a good position today, and from our

customers' perspective, they really find us to be a partner, not only for the hardware, but a solution view, because we are able to solve some of the toughest problems they see, like image stabilization, like integrating different cameras, all kinds of different technologies. Sitting where we are at today, the customers are going to be indexing over to Lantronix, even if there's a consolidation, and I believe we come up at the top.

Josh Sullivan
Then maybe one on the Blue UAS listing, for Open-Q. I think you've talked about it really driving measurable timelines for design activity. Is there early customer indications on that, or is there any way to quantify how much speed it actually adds to the process at this point?

Saleel Awsare
Blue UAS happened about a month ago, Josh, if not a little less than that. The way I'm quantifying it is we are the, to my knowledge, we are the only Blue UAS certified SOM in the market. We've got additional Lantronix system on modules that are going through the Blue UAS testing. All the customers that I have spoken to, the minute I tell them Blue UAS, they're like, "Great." That means it's a vetted, approved solution, in addition to our NDAA and TAA, really brings us, really a customer solution that works. Josh, it's going to take a little time. It's only been a few weeks that we've announced it, but so far the reception has been very good, taking another barrier away from the customers to make a decision to use Lantronix.

Josh Sullivan
Great. I'll leave it at that. Thank you.

Saleel Awsare
Thank you.

Operator
Our next question comes from Austin Moeller from Canaccord. Please go ahead with your question.

Austin Moeller
Hi. Good afternoon, Saleel and Brent. My first question here, can you elaborate on the status of the Ukraine sales channel opportunity with partners there like DoD Solution? If we think about the $15 million-$20 million that you expect from drone-related revenues, is the focus more on Eastern Europe now or to sales for the Pentagon?

Saleel Awsare
In the Eastern European opportunities, DoD Solution is one of them. There are a few others that we're working with that we will not be naming. As I mentioned, we've got a lot of customers in EMEA, and they're mainly in Eastern Europe. They could be in Latvia, Lithuania, obviously Ukraine, Finland. They are the folks who are moving with a lot of speed. As I said, about half, little less than half the customers now are focused there. We are working with them very closely, and they have the budgets to move forward.

As for the Pentagon and DoW, we are engaged with some of the largest customers in the drone programs that are out there. Where we sit today, our solutions are being accepted on both sides of the Atlantic Ocean quite well, and even across the Pacific in Japan now. As I think about the future, I believe international becomes more and more important, as I think about the future. But the U.S. continues to be an important driver for us also.

Austin Moeller
Okay. What is your view of the remote access, Power over Ethernet, modem opportunity with government agencies and government contractors in this new Congress?

Saleel Awsare
Yeah. We believe that the budgets will be approved, and a lot of these customers that we go, Austin, as you and I have spoken, are in the federal realm. So, like the FBI, the National Geospatial, NSA. We haven't seen any slowdown in the budget perspective as of yet. As you know, this quarter is the busy quarter for that business, so we'll continue to see that as we move forward. I don't anticipate an issue as of today.

To add a finer point, as you know, we hired, as of October 1st, an advocacy group, primarily to make sure people understand that if there is a choice between an international PoE switch or a device server, or a Lantronix, which is a U.S.-based company, they should go with the U.S.-based company. That is one of the reasons we've hired some advocacy. We'll be doing some of that work starting October 1st.

Austin Moeller
Excellent. Thanks for the details. I'll pass it back.

Saleel Awsare
Thank you, Austin.

Operator
Our next question comes from Jaeson Schmidt from Lake Street. Please go ahead with your question.

Jaeson Schmidt
Hey, guys. Thanks for taking my questions. Just curious if you could discuss the Tier 1 MNO customer and how we should think about that opportunity going forward, or if it is an opportunity here in fiscal 2027?

Saleel Awsare
Yeah, the Tier 1 MNO, as we've spoken in the past, Jaeson, we have shipped the substantial majority of the units probably three or four quarters ago, two or three quarters ago, and they're in the deployment phase. The good news is, our recurring revenue is increasing as they deploy more and more.

We are also engaged with them on an additional design, which is going to take a little bit while, but again, really to their specific specs, specifications, that could increase the opportunity size for us as they continue to deploy not only the one that we have, but also looking at this new design that we're working with them on it.

So we're not going to see the same amount of revenue we saw in fiscal 2025 and 2026 and 2027, but we're definitely engaged with them, and the software or the SaaS revenue for them is starting. Overall, as you can see, the company has been growing nicely over the last 4 quarters or so.

Jaeson Schmidt
Okay, really helpful. Thanks a lot, guys.

Saleel Awsare

Thank you.

Operator
Our next question comes from Christian Schwab from Craig-Hallum. Please go ahead with your question.

Ben Taxdahl
Hey, guys. It's Ben Taxdahl for Christian. Thanks for taking my questions. Great quarter. My first question is just on the Plymouth facility. We were just talking about the ASP and Spotter and such. Can you just break down what current capacity looks like, and if you have a target of unmanned systems, maybe on a monthly or yearly basis, that would be helpful.

Brent Stringham
Yeah, Ben. On the Plymouth facility, as we've spoken previously, we do have a good amount of space there that allows us to build up some equipment and do some substantial transformation of some of our products that allow us to get a Made in America stamp on them, or country of origin America, as we bring in some of the materials and things for SOMs.

We do not have a specific number or capacity targets necessarily, but we feel good about the size of the facility and the equipment that we've brought in over the last quarter or so. It's not a substantial investment dollar-wise either, and we're pretty much ready to go, going forward here, starting in the Q2, as we've discussed previously.

Saleel Awsare
And Ben, our facility size is 65,000 square feet, so we've got room to expand as we bring Spotter, the SOMs, and even our band and some of the switches and everything else. We're going to be growing nicely into that facility.

Ben Taxdahl
Thanks. That is helpful. Brent, just the last question for you. With the gross margin, we are kind of setting a higher base here. Is that mainly due to the recurring business? And then, how much of this higher base is being offset by some of the component costs?

Brent Stringham
Yeah. As we mentioned, the addition of the Nero acquisition with the recurring revenue and the higher margin profile there definitely helped this first quarter. It was only a partial quarter of revenue that we saw in Q1 with the acquisition, but expect a full quarter here in the December quarter that we are in. Component costs, such as memory and others, continues to be a challenge, as I mentioned in the script.

We have been largely able to pass those costs on to our customer chain. We continue to work through supply issues there. We think, overall, our margin profile, as we have disclosed in the kind of the mid-40s, is where we still feel comfortable company-wide, despite the mix that we may see quarter-over-quarter.

Ben Taxdahl
Thanks. Saleel, if I could just squeeze one more in here. How many of the 29 customers are participating in the Drone Dominance competition? What gauntlet would it be?

Saleel Awsare

Yeah. The gauntlet that got released, I think a month ago or so, was Gauntlet 2. And being very crisp on this, on the Gauntlet 2, there were two areas, Ben, the deep strike and close quarters. We are working with one in the deep strike and two in the close quarters. I am just being very transparent and clear with you guys. And there were five on each side, if you remember.

Ben Taxdahl
Right.

Saleel Awsare
A couple of them were from Ukraine, a couple of them are U.S.

Ben Taxdahl
That's really helpful. That's all I got. Thanks, guys.

Conclusion

Saleel Awsare
Thank you, everybody. Thank you, everyone, for your questions and joining us today. We appreciate your continued interest in Lantronix and your support. As we progress through fiscal 2027, our growth opportunity is coming into sharper focus, and what we are seeing extends well beyond drones. We are translating our success in unmanned systems into new opportunities across computer vision, robotics, and other intelligent edge applications.

With growing traction across these markets and continued disciplined execution, we remain confident in our ability to deliver double-digit revenue growth for the full year. Thank you again, and we look forward to updating you on our progress.

Operator
And that concludes today's conference call and presentation. We do thank you for attending. You may now disconnect your line.