

Lantronix

First Quarter 2026 Results Conference Call

Wednesday, November 05, 2025, 04:30 PM ET

CORPORATE PARTICIPANTS

Saleel Awsare--*President and Chief Executive Officer*

Brent Stringham--*Chief Financial Officer*

PRESENTATION

Operator

Good day, and welcome to the Lantronix, Inc. 2026 First Quarter Results Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Brent Stringham, CFO. Please go ahead.

Brent Stringham

Good afternoon 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, 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 will now turn the call over to Saleel.

Saleel Awsare

Thanks, Brent, and thank you, everyone, for joining today's call. We entered fiscal 2026 from a position of strength and our first quarter results reflect that momentum. We delivered revenue of \$29.8 million and non-GAAP EPS of \$0.04, both at the high end of our guidance range. Revenues grew 3% sequentially and 3% year-over-year, excluding Gridspertise, underscoring the progress we have made in positioning Lantronix for profitable growth. Importantly, non-GAAP EPS improved from \$0.01 in Q4 to \$0.04 in Q1, driven by gross margin expansion and the operating leverage created by last year's cost optimization initiatives.

Turning to the overall market environment. Industry dynamics remain favourable for Lantronix. We continue to see record defense funding and supportive regulatory momentum driving long-term opportunities across our three verticals. At the same time, demand for networking and connectivity solutions remain strong, creating continued tailwinds for our network infrastructure business and reinforcing our role as a trusted partner in government and smart city applications.

Starting with unmanned aerial systems, commonly known as drones, we are benefiting from broad-based demand across multiple customers. The AUSA event in Washington, D.C. was highly productive as we met with several strong existing and new partners, further strengthening our position in the market.

We made good progress in fiscal Q1 as we expanded our presence and scale production with Red Cat's teal drones, where we've already secured meaningful follow-on orders, a clear sign of customer confidence in our capabilities. We are also partnering with Red Cat on next-generation platforms designed to further enhance the drones performance and mission readiness.

At the end of Q1, our OEM engagements grew from 10 last quarter to 17 today, highlighting accelerating customer adoption and market momentum. This activity is supported by a few recent developments. We introduced our Edge AI drone solution, which integrates payloads from Gremsy and Teledyne FLIR.

Working with these partners, we completed a reference design that validates the solution performance and simplifies integration for OEM customers. The solution enables longer flight times, real-time edge data processing and up to 80% faster integration for developers. Just as important, it meets stringent NDAA and TAA requirements for defense and government programs.

More recently, Sightline Intelligence selected our Edge AI technology for integration into its new high-performance video processing solution for defense and commercial drone applications, further expanding our reach within the UAS ecosystem. Together, these advancements underscore our ability to deliver secure AI-enabled flight systems at scale.

While still early in the fiscal year, we are encouraged by our momentum in our drone business. This is a growing contributor to Lantronix and positions us for potential upside to our initial expectations as these programs scale through the remainder of fiscal 2026.

Building on this momentum, we recently introduced EdgeFabric.ai, our new visual orchestration platform for Edge AI deployment, which debuted at Qualcomm's Imagine Conference in September. Purpose-built for our Open-Q System on Module or SOM solutions, EdgeFabric.ai enables customers to design and deploy AI application in minutes instead of months without needing a team of AI experts.

Whether configuring smart cameras, industrial IoT monitors or other Edge AI-enabled devices, customers can now visually design their AI workflows and deploy them instantly. All without writing a single line of code. By simplifying development and automating deployment, EdgeFabric.ai strengthens customer engagement, accelerates time to market and creates a foundation for recurring software and services revenue over time.

In asset monitoring, a key long-term component of our industrial IoT strategy, we partnered with Vodafone IoT to launch Kompress.ai by Lantronix, a subscription-based SaaS platform targeting the \$27 billion global industrial air compressor market. While still in the early stages, we view this as a significant long-term opportunity, one that expands our reach, enhances our edge-to-cloud capabilities and creates incremental high-margin recurring revenue potential over time.

Together with our progress in drones and EdgeFabric.ai, Kompress.ai reinforces our execution of the long-term strategy to build scalable platforms that expand recurring revenue and strengthen our diversified model. Our strategy is clear: scale high-growth verticals, expand software-enabled recurring revenue and drive operating leverage from a leaner cost structure.

This quarter marked another important step forward with increased engagement with aerospace and defense customers, the launch of EdgeFabric.ai and continued expansion in targeted platforms. At the same time, our core network infrastructure business delivered solid growth and

margins in focus areas, demonstrating consistent execution and strengthening our diversified model.

I'll now pass it on to Brent to cover the financial results. Brent?

Brent Stringham

Thanks, Saleel. With the business off to a strong start in fiscal 2026, I'll walk through our first quarter financial results, discuss the key drivers behind our performance and then provide our outlook for the second quarter.

As Saleel mentioned, in the first quarter, we delivered revenue of \$29.8 million, an increase of 3% from the prior quarter and approximately 3% higher than the same period last year when excluding the impact of Gridspertise. Sequential growth was primarily driven by strength in some of our network infrastructure products, continuing to highlight our diversified revenue base.

Turning to margins. In the first quarter, GAAP gross margin was 44.8%, up from 40% last quarter and 42.1% a year ago. On a non-GAAP basis, gross margin was 45.3%, an improvement from 40.6% in Q4 and 42.6% in the prior year quarter. The increase reflects a more favourable product mix, lower inventory charges and benefits from certain royalties. We're encouraged by the continued strength in our underlying margin performance, supported by a higher mix of premium products and disciplined cost management.

Looking ahead, we expect gross margin to remain healthy and generally consistent with first half fiscal 2025 levels. We continue to proactively manage our global footprint in a dynamic trade environment, and we are closely monitoring evolving tariff and trade developments. We're also working closely with customers to help them adapt to changing cross-border requirements.

Turning to expenses and profitability. GAAP operating expenses in the first quarter of fiscal 2026 were 14.9 million, up less than 2% from the prior quarter and down 10% from 16.6 million in the year ago period. GAAP net loss for the first quarter of fiscal 2026 was 1.4 million or \$0.04 per share compared to GAAP net loss of 2.5 million or \$0.07 per share in the year ago quarter. On a non-GAAP basis, we reported net income of 1.5 million or \$0.04 per share compared to non-GAAP net income of 400,000 or \$0.01 per share in the prior quarter.

Turning to the balance sheet. Net inventories were 26.7 million as of September 30, 2025, compared to 26.4 million in the prior quarter and 29.5 million in the year ago quarter. We ended the quarter with cash and cash equivalents of 22.2 million, an increase of over 2 million from the prior quarter. During the first quarter, we also generated positive operating cash flow of approximately 3.6 million.

As we noted on our last call, in August, we refinanced our term debt into an asset-backed line of credit with the same lender. During the quarter, we paid down another 1 million of our outstanding debt, leaving a remaining balance of approximately 10.7 million as of September 30, 2025, and a corresponding net cash position of 11.5 million. Now turning to our outlook for the second quarter of fiscal 2026, which ends December 31, 2025. We expect revenue to be in the range of 28 million to 32 million. Non-GAAP EPS is expected to be in the range of \$0.02 to \$0.04 per share.

With that, I'll turn the call back to Saleel for closing remarks.

Saleel Awsare

Thanks, Brent. To close, fiscal 2026 is off to a strong start and we remain confident in the trajectory ahead. At the midpoint, our Q2 guidance implies sequential revenue growth and nearly 20% year-over-year growth, excluding Gridspertise, together with another quarter of solid profitability. This outlook reflects the operating leverage and cost discipline we established last year while enabling continued investment in our highest growth opportunities.

We are encouraged by the sustained momentum across our drone and asset monitoring platforms, driven by new customer programs and growing adoption of our integrated AI solutions. At the same time, our core network infrastructure business is performing well with steady demand in out-of-band management and strong contribution from switches and device service, supported by healthy enterprise and industrial connectivity demand as we approach the calendar year-end. With robust industry tailwinds, a strong balance sheet and disciplined execution, we believe we are well positioned to deliver growth and profitability in fiscal 2026 and beyond.

With that, we'll now open the call for questions. Thank you.

QUESTION AND ANSWER**Operator**

[Operator Instructions] The first question today comes from Ryan Koontz with Needham & Co. Please go ahead.

Ryan Koontz

Thanks. Nice quarter, guys. With regards to the drone opportunities, Saleel, can you maybe outline like where we are in this kind of adoption period? You talked about some wins, these -- when you count a win, you count that as a design win and what gives you confidence that it's yours and what's the competitive landscape like for you there?

Saleel Awsare

Ryan, thank you for your question. As I spoke in my prepared remarks, we are now working with 17 OEMs. A few of them have already gone into design-in, design win and some of them into shipping. So we're seeing accelerating momentum in the drone business and very proud of the progress that we've made. Our outlook definitely has improved over the last 90 days.

And while it's still early, we expect demand to accelerate throughout the fiscal year, presenting potential upside to what my current expectations are. And longer term, as I said, we expect this opportunity could be 10% to 15% of the company's revenue. So good progress in all areas for the drone area and feeling good as we sit here today.

Ryan Koontz

Got it. Great. And I know you had a generator win with a major service provider. Any update there as far as how that business is progressing?

Saleel Awsare

Yes. Thanks for that question. So as we had mentioned earlier, we have the generator win with a large MNO, if you remember. That is progressing well, and we are now moving beyond the diesel generator to other equipment that needs to get tracked. So it's a growing business for us for asset tracking.

Additionally, we announced Kompress.ai, which is focused more on the compressor space, but based on the same theme, which builds on our successes of the Tier 1 MNO and expands our recurring revenue model and supports our critical infrastructure strategy. So it's going as per plan, and the deployment for the MNO is also continuing nicely.

Ryan Koontz

Great. Maybe just a follow-up there. You talked about a new product here with this Kompress.ai. What's the sales and fulfillment model there you have with Vodafone IoT?

Saleel Awsare

Yes. Kompress.ai is an AI-powered SaaS solution designed really to generate long-term high-margin recurring revenue while addressing urgent market needs with compressors who have really no tracking in there. So we -- Vodafone has partnered with us. They will provide the connectivity for it, Ryan, while we provide both the hardware and the SaaS deployment and the revenue for that longer term. So it's early days, but we expect this in the next 24 months to start providing revenue into the model as we think about it, but more and more ARR. So it builds on what we did with the Tier 1 MNO and now it builds on that and more ARR revenue as I think about the future.

Ryan Koontz

Got it. Great. I will come back in the queue. Thank you.

Saleel Awsare

Thank you, Ryan.

Operator

The next question comes from Scott Searle with ROTH Capital. Please go ahead.

Scott Searle

Hi, good afternoon. Thanks for taking the questions and nice job on the quarter. Saleel, maybe just to dive right in, you had a couple of comments about out-of-band management, but I'm wondering if you could provide a little bit of color there in terms of strength, weaknesses, kind of how you're feeling about growth on that front. And then to go back to drones for a second, with the government shutdown ongoing.

Is there any impact on that or because you're basically dealing with various primes and vendors that the design activity continues, but there just might be some delays in terms of how shipping and revenue ramps up and if that changes your expected timeline to get to 10% to 15% of sales? And then I had a follow-up?

Saleel Awsare

Thank you for that question, Scott. Let me start with the second question first because it's current. Most of the defense drone in UAS are funded through multiyear contracts. So we are seeing minimal to no disruptions to our existing work. So as I sit today, we are full on with the customers. We are shipping to them. So no -- I don't anticipate any issues or concerns with that. Does that give you a perspective, a clear idea of what I'm thinking about the drones perspective on this?

Scott Searle

Yes.

Saleel Awsare

Yes. Going on to your -- yes, going on to the out-of-band one, we are seeing growth in out-of-band from last -- from the June quarter to the September quarter, and we are anticipating as we go into the December quarter to see -- again, we don't call it out specifically. It's part of our IoT business, but we are definitely seeing growth in that space as more deployments are happening.

And we'll be able to do some announcements probably later this year, early next year on some big win that we've done in that space. So, feel confident around out-of-band as we go through the fiscal year. More importantly, we are going to be introducing a brand-new out-of-band product late this year to go after some new markets. But stay tuned for that. We'll get into it more in our next call with you, Scott.

Scott Searle

Got you. And then on the ARR front, you've got a couple of different ways that you're attacking the market with the sell-side monitoring, with Kompress, attacking the compressor market. Two things. I guess I'm wondering how big of an opportunity can that be as you look out 12, 18, 24 months in terms of the recurring revenue stream?

And then as I think about other adjacent opportunities, particularly once you start to bring in your video performance and video AI capabilities that you're using in the drone market, are there other adjacencies that you could see expanding into over the next couple of quarters?

Saleel Awsare

So, again, I'll take your second question first because we are very good with cameras, and we've been good with cameras, and that's why we are winning in drones. We supply what you call. We are in the payload. And if you think about it, that's the most important part of the drone. So what's the next adjacency, which we are definitely looking at? I won't be going to details this time around is robotics.

Humanoid Robots are going to happen, what do they need? They need a good camera. Second one is security and surveillance, an area that we are doing well in with some customers. So again, good adjacent opportunities, same basic IP and technology and a solution that we provide to.

Going to your first question about ARR, as I said, our first foray into ARR has happened with the MNO opportunity, as we said, with the sell side. And it's a small portion of the revenue. Software and services is 5% to 7%, and Brent can correct me if I'm wrong. I expect that to keep on chugging along to 7% to 9% and 10% in the future as you aggregate all of that as a bucket that we call out, Scott.

Scott Searle

Great. Thanks so much. I'll get back in the queue.

Operator

The next question comes from Christian Schwab with Craig-Hallum. Please go ahead.

Christian Schwab

Yes, thanks for my question and congrats on a good quarter. I guess it wasn't clear to me the 17 OEM potential on the drone side of the business, you know, when would you anticipate being --

that being 10% to 15% of revenue? Is that something that could happen as soon as fiscal year 2027?

Saleel Awsare

Yes. As I sit here today, it's definitely on my radar for a fiscal year 2027 possibility of 10% to 15% of revenue.

Christian Schwab

Okay. And then, last quarter, you highlighted a Tier 1 telecom service provider. I think it was on the backup power systems, but it was an \$8 million to \$10 million win. Did you recognize any revenue in the quarter? And what is your outlook on that for the next few quarters?

Saleel Awsare

Yes, we recognized revenue in the September quarter, and we intend to recognize revenue in the December quarter. So, it's going well and as planned. No surprises here. And last quarter...

Christian Schwab

Go ahead. I'm sorry.

Saleel Awsare

No, no. Last quarter, it's progressing nicely is all I was trying to say, Christian.

Christian Schwab

Okay. And then a follow-up on that. When would you anticipate follow-on orders from that customer?

Saleel Awsare

So we get quarterly orders from them. So, maybe the way to think about it is it's a run rating business now. We had talked about the 50,000 piece opportunity, and we have purchase orders from them for that whole opportunity in place. We haven't shipped it all. We'll continue to ship it as the year progresses.

Beyond that, we are expecting probably sometime in calendar '26 to get follow-on orders for additional -- not necessarily for the diesel generator that we talked about, but additional equipment that they want to have tracked.

Christian Schwab

Great. Thank you. No other questions. Thank you.

Saleel Awsare

Thank you, Christian.

Operator

The next question comes from Scott Searle with ROTH Capital. Please go ahead.

Scott Searle

Just two quick follow-ups on the financial front. Just first, I wanted to clarify the gross margin outlook. I think you said in line with fiscal first half of '25. So in the low 40s, 42%, 43% to think about that the next couple of quarters.

And then, Saleel, just in terms of an early shot at fiscal '26 in terms of how you're thinking about growth that this is, in fact, a growth year, and we should continue to expect sequential progression of the revenue stream over the next couple of quarters? Thanks.

Brent Stringham

Yes, Scott, thanks. On the gross margin, you're right. We -- last quarter, we talked about returning from a down quarter, low -- we're right around 40%, I think, last quarter and talked about returning to 43%, 44%, which is what we saw a year ago. And so we think modeling at that level going forward in the near-term is appropriate.

Saleel Awsare

Yes, Scott, to add more color, the September quarter, we did a non-GAAP gross margin of 45.3%. It's the highest gross margin that the company has had in the last few years that I have been here and beyond that. So it's turned nicely as we are focused on cost controls, working with our CMs, all good things. What was your second question, Scott?

Scott Searle

The growth rate for fiscal '26, how you're expecting the sequential progression just conceptually over the next couple of quarters and if you're, in fact, still expecting growth overall for the year?

Saleel Awsare

Yes. Again, we do quarterly guidance. So put it in perspective, Y-o-Y without Gridspertise, we are growing close to 20%, Scott. That's darn good. So, I expect sitting here today, we expect to staircase up. Again, we don't give annual guidance, but nothing has changed in my mind. We feel good today, sitting here today.

Scott Searle

Great. Thanks so much.

Saleel Awsare

Thank you, Scott.

Operator

The next question comes from Jaeson Schmidt with Lake Street. Please go ahead.

Jaeson Schmidt

Hey, guys. Thanks for taking my questions. Just looking at that wireless operator opportunity or just that market in general, can you talk about any sort of discussions or engagements you're having beyond that customer you've already won? And how are you looking at that opportunity longer term?

Saleel Awsare

Yes. Jaeson, thank you for that question. So with that MNO, the opportunity, as we've said in the past, could be 3x the size. So we could grow that business nicely just with them. With the introduction of Kompress.ai, we've opened a new market, right? And we were at the compressor show a few weeks back, and we feel good about that. It's early days.

But then you've got another MNO who's working with us. We haven't named the first one, but this one we named and they were very happy to do a joint announcement with us, which is Vodafone IoT. So this is a part of one of the key verticals, asset tracking, asset management, just preventive maintenance, all of that is what it is. So moving forward, this is a focus area in

addition to all the drones that we talked about, and we should see growth moving forward with this.

Jaeson Schmidt

Okay. Perfect. And then just a follow-up for me. Looking at that drone opportunity, to your point, kind of 10% to 15% potential in fiscal '27, as drones become a bigger portion of the pie, does that significantly alter what gross margin ultimately will settle out to be?

Saleel Awsare

I'll let Brent opine on it a little bit after I'm done. The good news with the drone opportunity right now, it's a decent gross margin for us right now. So, you know, we are uber focused on gross margin. So I expect to continue where we are at right now, but Brent can add to it.

Brent Stringham

Yes, I think that's generally accurate, Jaeson. I mean with the kind of the wide breadth of products we have; we're still kind of forecasting that margin profile into the near and middle term that I mentioned previously.

Jaeson Schmidt

Okay. That's helpful. Thanks a lot, guys.

Conclusion

Operator

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

Saleel Awsare

Thank you very much for everyone for joining the call. We will be at the Craig-Hallum and the ROTH conferences in New York in a couple of weeks. Thank you so much.

Operator

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