Lantronix

Fourth Quarter 2026 Results Conference Call

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CORPORATE PARTICIPANTS

Saleel Awsare--*President and Chief Executive Officer*

Brent Stringham--*Chief Financial Officer*

PRESENTATION

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

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

Brent Stringham
Good afternoon, everyone, and thank you for joining our fiscal fourth 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. The fourth quarter marked a strong finish to fiscal 2026. Over the course of the year, we transformed our operating model, strengthened our balance sheet, and built the foundation for profitable growth. We are now seeing the tangible results of that work.

Our continued strong execution drove 8% year-over-year revenue growth to 31.2 million and a 300% increase in non-GAAP EPS to $0.04. Both metrics were within our guidance range. Importantly, our embedded IoT solutions, which includes our drone business, grew 34% year-over-year. Gross margins remained strong at above 44%, reflecting our team's disciplined execution as we accelerate momentum across the business.

Turning to the broader operating environment, starting with Unmanned Systems. Fiscal 2026 was the year our drone opportunity progressed from early validation to a meaningful growth engine for Lantronix. We set the foundation in Q4 last year when we secured our first drone win with Red Cat powering Teal Drones' Black Widow platform for the U.S. Army's short-range reconnaissance program.

As a Blue UAS approved platform, this was a rigorous qualification process, and we believe we won the program because of our deep camera expertise and years of experience in camera tuning, sensor fusion, and the complex software integration required for military-grade imaging.

Our status as a North American supplier was also a key factor. With NDAA and TAA compliance now table stakes for defense programs, a trusted domestic supply chain mattered as much as our deep technical capabilities. That win came against a backdrop of record defense funding with the U.S. Department of War earmarking over $13 billion for autonomous systems in 2026 alone, alongside a clear and growing requirements for secure U.S.-made technology. From there, we built on the early momentum, adding several customers, including Sightline, Trillium Engineering, and others to our drone roster.

Over the course of the fiscal year, we scaled our broader unmanned systems engagements from roughly 10 in Q1 to over 30 today. That growth accelerated following a major regulatory shift in December 2025 when the FCC restricted China-based DJI, historically the dominant drone supplier from introducing new products into the U.S. market. The move created a significant tailwind for domestic trusted supplier platforms, like ours and was soon followed by meaningful U.S. government funding to accelerate the deployment of domestic drone technologies.

And just a couple of weeks ago, that regulatory momentum was further reinforced by the action from Washington, the President signed a Section 232 proclamation imposing new tariffs on foreign-made drones and components aimed at reducing reliance on foreign suppliers and building out domestic manufacturing capacity.

While the FCC's action in December focused on restricting new foreign-made drones and components from entering the market, this latest action is broader, directly targeting the economics of importing drones and related components across the existing market. This is another clear tailwind for domestic NDAA compliant suppliers like Lantronix, and we expect it to accelerate the shift towards domestically manufactured alternatives.

Just as important, we are seeing the industry focus shift from simply building more drones to making drones increasingly autonomous. At the scale governments and commercial operators envision, there simply won't be enough trained pilots to operate every drone and training new operators takes time. This makes autonomy essential and autonomy requires powerful AI compute at the edge, what we call physical AI, and that's exactly where Lantronix fits.

Our edge compute platform enables the onboard intelligence that allows drones to perceive, navigate and execute missions autonomously in GPS-denied environments, positioning us at the center of this long-term transition.

Against this backdrop, we delivered $12.6 million in unmanned systems revenue in fiscal 2026, above the midpoint of our most recent guidance range. Importantly, this momentum extends beyond defense. We are also seeing growing adoption across commercial, industrial, agricultural, drone as a first responder and counter-UAS applications, reinforcing the breadth of our unmanned systems opportunity.

Our international expansion is also progressing well, including two recent partnerships we formed in the unmanned systems market. The first is with DoD Solution, an Estonian-Ukrainian developer of onboard drone autonomy technology for drones and other unmanned systems. By combining Lantronix' edge compute solutions and engineering expertise with DoD Solutions'

AURA autonomy platform, we are supporting a range of demanding applications. This partnership also strengthens our presence in Europe and Ukraine, where demand for our solutions continue to grow.

Our second partnership is with AVT Australia, a CACI company that develops gimbal camera payloads for drone manufacturers. AVT has designed its payload around our System-on-Module platform, which is purpose-built for high-performance AI and robotics applications. Together, these partnerships demonstrate Lantronix' growing presence across the global unmanned systems ecosystem.

Additionally, we recently announced a collaboration with Swarmer, a U.S.-based drone autonomy software company. Together, we are developing a production-ready compute platform that combines Swarmer's combat proven software with roughly 4x the onboard processing power focused on Group 1 unmanned aerial systems. This collaboration highlights the strength of our hardware, software integration, and engineering services, while creating a path to long-term production revenue as Swarmer scales across U.S. and allied defense programs.

With that, let me turn to our IoT System Solutions business. After navigating several quarters of federal government shutdowns, which created extended procurement cycles, we are beginning to see conditions improve. Q4 revenue grew 16% sequentially, driven by a recovery in our out-of-band management portfolio, strength in network switches and early signs of stabilization in our federal business.

Within out-of-band management, we are seeing growing traction in the data center space as edge compute and AI infrastructure deployments accelerate the need for remote monitoring and control of critical IT and data center equipment.

One proof point of this is SambaNova Systems, where our out-of-band solution is deployed as a part of their DataScale platform, a purpose-built AI infrastructure rack for large-scale inference and training workloads. We provide dedicated remote access to the critical networking and compute infrastructure within that platform.

Moving to our critical infrastructure monitoring vertical, just over a month ago, we took another step forward in our platform strategy by acquiring Vecima Networks' Industrial IoT business, including its Nero Global Tracking platform for 11.7 million, which closed this month. The tuck-in acquisition adds approximately 5 million in annual revenue, with the majority coming from ARR and gross margin in the mid to high 60s range.

Based on the purchase price relative to the asset's financial profile, view this as a highly favorable transaction and one that is immediately accretive to earnings. Just as important, it advances a strategy we've been executing deliberately over the past several quarters, layering more software onto our hardware base to expand recurring revenue. That strategy is increasingly visible in our revenue mix.

Our software and services mix has steadily increased throughout the year, moving from 5% to 6% of revenue and then to 7% to 8%. With this acquisition, on a pro forma basis, our software and services revenue mix increases about 10% of total company revenue. This represents a meaningful step towards a more predictable, higher-margin business model.

Beyond the immediate financial benefits, we see meaningful cross-sell potential. Nero brings an installed base of roughly 125,000 device tags across fleet, municipal, restoration and industrial asset tracking markets, creating a natural opportunity to deploy our cellular gateways, modems, edge compute products and connectivity solutions. Together, Nero's software and our hardware provide customers with a more vertically integrated end-to-end asset monitoring solution.

In summary, I am encouraged by our performance in fiscal 2026 and the significant progress we achieved. Our focused execution, disciplined operating approach, and strengthened organization are providing tangible results. We are meaningfully scaling our presence in high-growth verticals, increasing the contribution of software-enabled recurring revenue, and continuing to realize operating leverage from a more efficient cost structure.

As we enter fiscal 2027, we believe Lantronix is better positioned than ever to benefit from long-term growth trends reshaping edge compute and connectivity. With strong momentum, a differentiated portfolio, and a clear strategic roadmap, we are excited about the opportunities ahead and remain committed to creating long-term shareholder value.

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

Brent Stringham
Thanks, Saleel. I'll begin with our fourth quarter and fiscal 2026 financial results and some of the key drivers behind our performance, after which I'll provide our outlook for our first fiscal quarter ending September 30, 2026.

For fiscal 2026, revenue was nearly $121 million, representing 8% growth over fiscal 2025 revenue of just over $111 million, excluding Gridspertise. Our growth was driven by more than 15% annual growth in embedded IoT solutions, led by unmanned systems. As Saleel mentioned, unmanned systems revenue reached $12.6 million, above the midpoint of the $10 million to $14 million range we provided last quarter.

Revenue for the fourth quarter was $31.2 million, representing both sequential and year-over-year growth. Our IoT systems solutions rebounded in the quarter, contributing more than $15 million of revenue after slower ordering patterns in the prior 2 quarters related to the government shutdowns in late calendar 2025 and early 2026.

As we have said over the past several quarters, we viewed those federal headwinds as timing related rather than reflective of underlying demand. The 16% sequential growth we delivered in the fourth quarter reinforces that view.

Turning to our gross margins. In the fourth quarter, GAAP gross margin was 43.7%, up from 43.1% in the prior quarter and 40% a year ago. On a non-GAAP basis, gross margin was 44.1% compared with 43.6% in the prior quarter and 40.6% a year ago. The year ago period was impacted by aged inventory charges and higher duties and tariffs.

The sequential improvement reflects a combination of favorable revenue mix, including stronger performance in system solutions and the continued focus of our operations team on supply chain efficiency and execution.

Looking ahead, we believe these efforts, together with our disciplined approach to cost management, should support gross margins at or near current levels in fiscal 2027. Let me also briefly address the broader supply environment, which we continue to monitor closely. Memory availability has tightened and prices have increased as AI infrastructure and hyperscaler data centers consume a growing share of industry supply. This is an industry-wide dynamic affecting the embedded compute market broadly and is not unique to Lantronix.

We believe our early preparation has positioned us well in this constrained environment. By leveraging our fabless operating model and diversified manufacturing partners, we identified these trends early and proactively secured supply.

Looking at our expenses and profitability. GAAP operating expenses in the fourth quarter of fiscal 2026 were $14 million, slightly down from the $14.1 million in the prior quarter and down approximately 5% from $14.7 million in the year ago period. We continue to observe the leverage in our OpEx model based on the actions we took last year and the ongoing cost discipline that we are executing on.

GAAP net loss for the fourth quarter of fiscal 2026 improved to $269,000 or $0.01 per share compared to GAAP net loss of $2.6 million or $0.07 per share in the year ago quarter. On a non-GAAP basis, net income of $1.8 million or $0.04 per share compares to $1.5 million or $0.04 per share in the prior quarter and was an improvement from the $0.01 per share in the year ago quarter.

Moving to the balance sheet. We raised just over $44 million in net proceeds during the quarter through our public and ATM offerings, bringing our year-end cash balance to more than $60 million. We also repaid the remaining $8.7 million of debt and ended the fiscal year debt-free.

Our strong balance sheet gives us the flexibility to execute our growth strategy while remaining disciplined and opportunistic in allocating capital to the highest return opportunities across R&D, go-to-market initiatives and strategic M&A.

During the current quarter and full fiscal year, we generated positive operating cash flow of approximately $1.9 million and $9.9 million, respectively. Net inventories were $25.8 million as of June 30, 2026, compared to $26.4 million last quarter and $26.4 million in the year ago quarter.

Lastly, our outlook for the first quarter of our fiscal 2027, which ends September 30, 2026, is as follows: we expect revenue to be in the range of $31 million to $33 million. Non-GAAP EPS is expected to be in the range of $0.04 to $0.06 per share.

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

Saleel Awsare
Thanks, Brent. Fiscal 2026 was a year of measurable progress. We returned the core business to growth, established unmanned systems as a meaningful contributor, expanded recurring revenue and significantly strengthened our financial position.

Along the way, we continue transforming Lantronix from a broad-based hardware provider into a focused solutions platform, combining compute, connectivity, physical AI, software and services at the intelligent edge. Unmanned systems is the clearest proof point. From minimal revenue contribution a year ago, we delivered $12.6 million in fiscal 2026 after raising our outlook 3x.

We tripled our active engagements, expanded our global customer and partner base and moved further up the technology stack. In fiscal 2027, we expect unmanned systems to represent 15% to 20% of total revenue, with continued growth beyond these levels in subsequent years.

We enter fiscal 2027 with multiple engines of profitable growth, the strongest financial position in our history and confidence in our ability to deliver double-digit revenue growth. As we continue to move further up the technology stack and expand our role across the broader autonomy ecosystem, we believe Lantronix is becoming the go-to edge compute company for unmanned systems.

And with that, operator, we will now open the call for questions.

QUESTION AND ANSWER

Operator
[Operator Instructions] The first question will come from Austin Bohlig with Needham. Please go ahead.

Austin Bohlig
Hi, guys. Thanks for taking my question and congrats on the strong results and really strong traction in the unmanned business. And so guys, just maybe just to dive in a little bit into your guided newest fiscal '27 drone guide. Just would love to get a sense of like what your visibility looks like into this number. And does this largely just assume the engagements that you have today?

Saleel Awsare
Thank you for the question, Austin. And specifically to the guide, it does have into the visibility we have today and the engagements. And what I want to clarify is we are working with over 30 vendors now. We have shipped to over a dozen already. And not only are we doing unmanned systems, specifically drones, but we are also in the counter UAS area. We actually shipped to a couple of customers in the last quarter. So the breadth of the opportunity is there. We have seen decent visibility as we started fiscal '27, and the numbers are based on where we see it today.

Austin Bohlig
Okay. Perfect. And maybe just to kind of get a little bit more color on this 15% to 20% of revenues. Is it fair to assume that like from an absolute dollar perspective, you guys did almost $13 million in fiscal '26? Like should we be assuming this could be at least maybe $25 million in '27?

Saleel Awsare
Yes. Yes, we should be there around the $25 million-plus range for fiscal '27.

Austin Bohlig
Awesome. And then just one last quick one here. Just would love to know, is there any big impact to you guys, both positively and negatively related to the new drone tariffs that were announced a couple of weeks ago?

Brent Stringham

Yes. I think, Austin, I'll take that one. It's definitely a structural tailwind for our drone business. Being an NDAA and TAA compliant solutions provider, we believe that this tariff policy could support additional design win opportunities for us.

On the actual tariff side of things, we don't see a meaningful impact based on the way some of our components are imported today as more general purpose modules as opposed to specific drone components. So the things that we import from Taiwan and other areas we're not anticipating a meaningful impact at this time.

Saleel Awsare
Yes. Austin, let me add one more thing. As you're well aware, we've got a big facility in Plymouth, Minnesota, and we are ramping up there to provide our drone customers with products with a TAA NDAA certified and in the midterm country of origin, United States of America. So I feel this is going to be helpful for Lantronix.

Austin Bohlig
Awesome. All right, guys. Well, keep up the great work. We'll be in touch.

Saleel Awsare
Thank you so much, Austin.

Operator
The next question will come from Scott Buck with Titan Partners. Please go ahead.

Scott Buck
Hi, good afternoon, guys. Thanks for taking my questions. I am curious, between Swarmer and the DoD Solution and I guess all the Ukraine-linked programs, what percentage of unmanned revenue is tied to Ukraine and demand? And how do you think about that revenue in a ceasefire scenario?

Saleel Awsare
So Scott, thank you for that question. Our drone revenue for the last 12 months of fiscal '26 and fiscal '27, for fiscal '26, it's mainly U.S.-based, big majority of it. Fiscal '27, the Ukraine portion is not a meaningful portion specifically with the one customer that we talked about and we mentioned. So I don't see a measurable concern for a cease fire or what have you because the growth, we have just changed how war is conducted, and this requires the ability to have unmanned systems, more specifically unmanned systems with autonomy. And that is where we fit. So I don't anticipate any big issues with specifically if that cease fire happens in Ukraine.

Scott Buck
Great. That's helpful color. And then my second question, just on gross margin. As unmanned scales, do you start to see some mix pressure there? Or does the progress or kind of growth in the software and services offset that?

Brent Stringham
Yes. Thanks, Scott. I'll take that one. You're right. With the expected growth of our module business related to unmanned and drones, there is natural pressure. Those, the margins in that business are slightly below kind of our corporate average in the low to mid-40s there. So we do see potential pressure.

But as you mentioned, we expect to continue to grow some of the higher-margin sides of our business, including the ARR, which Saleel talked about with the acquisition and seeing a return to growth in some of our other businesses that carry higher margins, some of the network infrastructure and other products that might have had some headwinds against them earlier in the fiscal '26 with government shutdowns and things like that. So we think the offset between those 2 kind of keeps us in a similar range to where we've been company-wide.

Saleel Awsare
Scott, let me just add a little bit more color to your question about, specifically in Ukraine. I think the message I want to make sure comes through; we have expanded our reach. We talked about a Ukrainian customer. We talked about a big win in Australia with CACI, which is a big company, U.S. headquartered. We're talking about -- and you're going to hear more in the next call about international expansion beyond North America. So I want to be clear, we are going global, and we're seeing traction globally.

Scott Buck
Well, perfect. I appreciate that. And congrats on the strong results guys.

Saleel Awsare
Thank you.

Brent Stringham
Thank you.

Operator
The next question will come from Josh Sullivan with Jones Trading. Please go ahead.

Josh Sullivan
Hey, good evening. Just a follow-up on the 232 decision. Have you seen any change in behavior or activity from customers since the announcement?

Saleel Awsare
Yes. So Josh, thank you for that question. This is Saleel. It's pretty fresh, but we have had a few customers come to us pretty quickly to make sure that we are NDAA and TAA certified. And then when I mentioned to them, we are going to start obviously doing more manufacturing out of our testing area in Plymouth, Minnesota, they were very happy to hear that. So as I said earlier in my prepared remarks and even what Brent said, we believe this is a good tailwind for us, especially with our solutions. So interest in us being U.S. headquartered and delivering solutions here. So I think it's a big plus for us.

Josh Sullivan
Got it. And then on the Nero acquisition, now that you're a software, hardware end-to-end solution, what other markets might that take you into? Or what does that capability allow you to do?

Saleel Awsare
Yes. So if you think about Nero asset tracking, we've got -- they already have 125,000 tags out there. So 2 things as you think about the markets. They have been very focused on restoration and fleet tracking. Lantronix has been very focused on managing diesel power generators at cell sites with the big MNOs. Think about how we can start putting that together. That was a part of our overarching strategy that we did this deal for. They bring a strong software backbone to us.

It ties in with our perception software that we have and really goes after new markets that we are going after, and they will be able to get us there faster.

Secondly, we have hardware, right. Nero Global Tracking did not have their own hardware. They were buying hardware from other companies. Our cellular modems and gateways are a perfect fit into that, so we are going to see an upsell from our side, from our hardware business that we have. So it's a great fit, gross margins in the 60% plus. We really like it, and it helps the company overall. And more importantly, it takes our software and services business that I have been saying was 5% to 6%, we took it to 7% to 8%, I want it to be over 10%. Guess what, guys? We took it to over 10%.

Josh Sullivan
And then I guess on the SLC 9000, what does the rollout of that product look like? What's the TAM there? Obviously, a huge market, but curious what you think you can access there over kind of what time frame?

Saleel Awsare
Yes. Thanks for the SLC 9000. For those on the call, it is our out-of-band product, and I mentioned in my prepared remarks that we won a design with a company called SambaNova Systems out of Silicon Valley. Heavily funded by Intel. In that one, we are sitting in their rack. I think it is called the DataScale Rack that they have, and we are sitting in that rack. So we are excited about as they go deploy their racks, and each rack has accelerated nodes, host servers, and our box on the top. So it gives you remote access to it.

We believe the TAM in this market could be over $500 million, and we are just getting started with this. SambaNova is one proof point of our SLC 9000, and the product is ready and it has already started to ship. I will add to it, SambaNova picked us because of our ease of use, our reliability, and our zero-touch provisioning that we have designed in. Additionally, our API is integrated with their tools, so this is a long-term business for us as I think about it.

Josh Sullivan
Okay. Thank you. I'll leave it there.

Saleel Awsare
Thanks.

Brent Stringham
Thanks.

Operator
The next question will come from Jaeson Schmidt with Lake Street. Please go ahead.

Jaeson Schmidt
Hi guys. Thanks for taking my questions. Just first starting on the drone market, given your comments about the traction you're seeing globally, are you continuing to expand the sales team and infrastructure focused on this market?

Saleel Awsare
Jaeson, thank you for that question. And yes, we are expanding the go-to-market as we think about the future. As a matter of fact, we kicked off the fiscal year with having a drone summit with all the stakeholders at Lantronix meeting for literally a week going through all the

opportunities, how do we need to go tackle them. So we've added resources in North America. We've added resources in Europe. We're also going to be adding some resources in advocacy in Washington, D.C. So we're really all a big effort going on to do this. And I really feel this is going to pay really well for us. The ROI is going to be wonderful for it.

Jaeson Schmidt
Okay. That's really helpful. And then just as a follow-up, obviously, the memory availability remains tight, and there's some pricing pressure out there. Are you guys going to pass through some of these prices as part of your price mitigation strategy?

Brent Stringham
Yes. Jaeson, we're working closely with customers on the memory issues that everybody seems to be facing right now. So, from a cost pass-through standpoint, we're obviously trying to be careful, but working with customers on what's most reasonable for both parties. And I think in general, most parties out there, kind of expect those costs to be passed through. And so that's kind of the direction we're seeing others heading so.

Jaeson Schmidt
Understood. Thanks a lot, guys.

Brent Stringham
Thank you.

Operator
The next question will come from Christian Schwab with Craig-Hallum Capital Group. Please go ahead.

Christian Schwab
Great. Good quarter, good outlook, guys. I just want to -- one quick question and another follow-up. The cash at quarter end that you highlighted, did that take into account the recent tuck-in acquisition -- or should that be reduced?

Brent Stringham
Yes. So, our cash at June 30, our fiscal year-end that we reported, we had not closed the acquisition yet, Christian. So, no disbursements of any cash proceeds that had taken place as of the year-end.

Christian Schwab
Okay. I just wanted to get that quick math. And as we look at your outlook for next fiscal year, excluding the unmanned systems, which you've given great clarity on, we ran into multiple headwinds that we've addressed over the last few quarters in the remaining part of the business, let's just lump it and call it all IoT systems.

Given the strong sequential growth in the quarter and new opportunities, for example, in the out-of-band product that you highlighted, would you expect that portion of the business to be like a 5% to 10% growth business or maybe even better than that in fiscal year '27? How should we think about that?

Saleel Awsare
Yes. So Christian, thank you for that question. So, we had a 16% growth quarter-over-quarter. The first half of the fiscal year of '26, as you remember, we had government shutdowns. And

some of that business is our federal business. So that was affected by that. I'm just being careful as I give you guides and we want to be intelligent about how we go about doing it. We believe that business should grow. And we are -- with that mindset that we are seeing design and activity, one piece of data is something called quote activity for this business, and that is doing really well.
So, as I said, we expect the company to grow double digit, and we are confident we can deliver that. I believe we can deliver that. So, stay tuned as we move forward, but we grew 16% quarter-over-quarter.

Christian Schwab
Great. And then my last question, just as it relates to gross margins. As we layer in and expand our ARR and higher gross margin portions of the business, potentially helping to offset any type of pressure you may have as far as component costs. Do you think gross margins could improve throughout the course of the year? Or do you expect them to be relatively stable?

Brent Stringham
Yes. Christian, we do think there's opportunity to grow the gross margin throughout fiscal '27, especially as we see, as I mentioned earlier, an uptick in some of these other businesses that do carry higher gross margins as compared to what we -- how we performed in fiscal '26. And certainly, the ARR that comes along with the acquisition and to the extent we can continue to ramp that up, we should see margins pick up slightly.

Now as I mentioned before, there is maybe a little headwind on the other side with some of the growth in modules on the drone and UAS business. But net-net, I think there's opportunity to grow the margins.

Christian Schwab
Great. And then my last question as far as future potential strategic M&A. Saleel, do you have a target list of companies that you're looking at or targeting or should we not really anticipate any further tuck-in acquisitions, for example, in fiscal year '27?

Saleel Awsare
Yes. We've been very deliberate and thoughtful as to how we run this company. We've got cash on the balance sheet. We want to grow in 2 areas: unmanned systems, increasing our strength in there, move up the drone stack. And secondly is on recurring revenue. Both of those areas we like. And we have a list of companies we are looking at and some even we are engaged with. So yes, we are moving forward on that, Christian.

Christian Schwab
Great. No other questions. Thank you.

Saleel Awsare
Thank you, Chris.

Operator
The next question will come from Austin Moeller with Canaccord. Please go ahead.

Austin Moeller
Hi, good afternoon, Saleel and Brent. Nice quarter. Just my first question here, it sounds like Putin wants to call a general mobilization to invade Kyiv from the north. So if you start producing and shipping SOMs at scale in Eastern Europe, how would you expect the gross margins on

SOMs to compare in Eastern Europe relative to what you might get on the drone dominance program at the higher build rates?

Brent Stringham
Yes. Thanks for that, Austin. With respect to our European business or potential European businesses, I think the gross margins on our SOMs there, it's reasonable to think they might be slightly more challenged than maybe what we've seen here in our, in the growth we've seen over the last year here, mostly in the U.S.

Austin Moeller
Okay. And how does the AVT Australia opportunity open up? Does that open up the TAM for SOMs and drones in Asia Pacific? Or does that, will that also open up the opportunity in Asia Pacific and the Middle East for tactical drones?

Saleel Awsare
Yes. The AVT, which is a CACI company, Austin, I'm sure you're familiar with them, a big company in the U.S., a defense tech company. So right now, our understanding is it's Asia Pacific, it's Europe, some America and some in the Middle East. So it really does open up. And we are also actively engaged with customers now in Japan.

As you know, they're thinking about NDAA and TAA certification. I'll be meeting some of them shortly at one of the shows coming up. So we've been very thoughtfully going. North America started in Europe, working with Australian opportunity, which is it's a good-sized opportunity for us. So as I said earlier, when somebody else asked me a question, we're going internationally, and we are spreading internationally. We are putting go-to-market resources. So our breadth is improving every day.

Austin Moeller
Super exciting. I'll pass it back there. Thanks.

Saleel Awsare
Thank you so much for that question.

Conclusion

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

Saleel Awsare
Thank you again for your questions and joining us today. We appreciate your continued interest in Lantronix and your support throughout the year. Fiscal 2026 marked important progress in our journey. The strategy that was beginning to take flight is now delivering measurable results. As we enter fiscal 2027, we are continuing our climb with greater momentum, a stronger platform, a clear visibility into multiple opportunities that we expect will drive double-digit revenue growth for the full year.

In September, I will be at the Piper Sandler Government & Defense Tech CEO Summit in Washington, D.C., the Lake Street BIG Conference, and the Gabelli Aerospace & Defense Symposium in New York, and the Needham Summit in Minneapolis. Thank you very much, everybody.

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