

NASDAQ:LTRX Q3 2025 Earnings Call Transcript

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Conference Operator | Operator:

Good day and welcome to the Landtronics 2025 Q3 results conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note this event is being recorded. I would now like to turn the conference over to Brent Stringham, Chief Financial Officer. Please go ahead.

Brent Stringham | Chief Financial Officer:

Good afternoon, and thank you for joining our quarterly earnings call. Joining me today is our President and Chief Executive Officer, Salil Al-Saray. 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. Lantronics 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 Salil.

Salil Al-Saray | President and Chief Executive Officer:

Thanks, Brent, and thank you, everyone, for joining today's call. We reported revenue of \$28.5 million for the third quarter of fiscal 2025, and our non-GAAP EPS was \$0.03. Both metrics were well within our quarterly guidance range. Brent Stringham, our CFO, will be providing more details on the third quarter financial results shortly. On the call today, I would like to cover four topics with you. First, I will speak briefly to the current operating environment and how we've moved quickly with our own task force on tariffs while remaining focused on executing our business and controlling costs. Second, I'd like to talk about how we are expanding our distribution network in the European Union and Asia Pacific. Third, I would like to highlight some recent customer wins and mention products we've launched. Lastly, I want to highlight our solid operational execution and strengthening financial position, which Brent will speak to in more detail in his prepared remarks. So first off, we're carefully monitoring the current operating environment, and we are working very closely with our customers, suppliers, and contract manufacturers. In anticipation of the tariffs, we established an internal task force to identify our top priorities and devised a 90-day action plan. We are currently implementing this plan and closely managing expenses due to the uncertainty surrounding tariffs and any disruptions to the supply chain. Regarding pricing, we are working on a customer-by-customer basis with goal of minimizing the impact of landtronics. And we are in discussion with our largest partners and contract manufacturers to manage and reduce cost. In this operating environment, we will continue to analyze, adjust, and execute our action plan. Second, regarding our effort to grow our channel distribution, We announced

this past quarter that we are expanding our partnership with TD Cynics, our major distributor in North America. They are now distributing throughout Europe, focused on out-of-band management, network infrastructure, and industrial IoT solutions, bringing expanded support to our customers and partners in the European Union. And we are also leveraging the acquired channel network from Netcom, to expand the distribution in Asia Pacific, Australia, and New Zealand. Overall, the integration of Netcom products into our business has gone very well, and I'm pleased with the level of customer engagement and new cross-selling opportunities that we are seeing. Third, regarding new customer wins, we recently announced a new AI-powered Camelot solution that uses our high-performance system and module paired with thermal infrared camera module from Teledyne FLIR. In this solution, our OpenCUE system and module provides advanced processing for AI-driven situational awareness, advanced thermal imaging, and real-time decision-making. This integration accelerates the next-gen AI camera solutions for drones, surveillance, and robotics. I'm also pleased that we announced our latest system and module using Qualcomm's Dragon Wing 8550 processor that's uniquely designed for higher AI and ML applications, such as video transcoding, camera applications, and edge gateway integration. As I've said previously, we are very focused on edge AI solutions because of the benefits of low latency, better security, and low power requirements at the edge of the network. And we are seeing more customers moving to hybrid architectures that are leveraging both cloud computing for heavy computational processing, as well as edge computing for intelligent real-time inferencing. And finally, we continue to manage our cost structure tightly, and I'm pleased to report our cash position increased sequentially in fiscal Q3 compared to the prior quarter. We also took the prudent step to pay down some debt, helping us reduce our interest expense. Brent will be covering that in more detail in his script. Brent, over to you.

Brent Stringham | Chief Financial Officer:

Thank you, Salil. I will review the financial results and some business highlights for our third quarter of fiscal year 2025 before commenting on our financial outlook for the fourth quarter of fiscal 2025. For the third quarter of fiscal 2025, or FQ3, We reported revenue of \$28.5 million. As we expected, revenue was down both sequentially and on a year-over-year basis, with no shipments in the current quarter to our large smart grid customer in Europe as they worked through their initial deployments. The revenue impact was partially offset by sequential organic growth in our embedded connectivity and switch products, along with growth in our gateways and routers led by products from the acquisition of Netcom last December. As expected and discussed on last quarter's call, we saw sequential and year-over-year increases in our GAAP and non-GAAP gross margins. GAAP gross margin was 43.5% in FQ3 2025 compared to 42.6% in the prior quarter and 40.1% in the year-ago quarter. Our non-GAAP gross margin was 44.1% in FQ3 2025 compared to 43.2% in the prior quarter and 41% in the year-ago quarter. GAAP operating expenses for FQ3 2025 were \$16 million, compared to \$16.6 million in the year-ago quarter and \$15.4 million in the prior quarter. We reduced our non-GAAP OPEX for FQ3 2025 by approximately \$1.2 million compared to the year-ago quarter and by about \$200,000 sequentially. We continue to realize the impact of the various cost reductions we have spoken to in recent quarters. We know in the March quarter that non-GAAP OPEX, including costs related to NetCom, was within our previously stated quarterly target range of \$11.25 million to \$11.75 million, which did not originally contemplate NetCom operating costs. GAAP net loss was \$3.9 million, or \$0.10 per share, during FQ3 2025, compared to gap net loss of \$400,000 or one cent per share in the year-ago quarter. The current quarter gap net loss includes a restructuring charge of approximately \$1.6 million related to the cost reduction initiatives that we undertook and completed in January. Non-gap net income was \$1.1 million or three cents per share during FQ3 2025. compared to non-GAAP net income of \$4.2 million, or 11 cents per share, in the year-ago quarter. Turning to the balance sheet, cash and cash equivalents at the end of the March quarter totaled \$20 million, slightly up from the prior quarter. Before the three- and nine-month periods ended March 31, 2025, we generated positive operating cash flow of \$3.2 million and \$6.2 million, respectively. Net inventories decreased to \$28.2 million as of March 31, 2025, as compared to \$29.1 million in the prior quarter. Given our recent margin expansion and cost reductions, the positive cash flow from operations allowed us to improve our balance sheet during the current quarter by paying down about \$2 million, or 15%,

of our existing term debt. As Salil previously mentioned, this will help improve savings on interest costs. As of March 31st, 2025, our remaining debt balance approximates \$12.5 million, giving us net cash of \$7.5 million. Now for the outlook. For the fourth quarter of fiscal 2025, we expect revenue to be in the range of \$26.5 to \$30.5 million. Given the current environment, we are expecting some pressure on gross margins in FQ4 compared to our recent near-record gross margins in FQ3. Accordingly, non-GAAP EPS for FQ4 is expected to be in the range of zero to two cents per share. Thanks, Brent.

Salil Al-Saray | President and Chief Executive Officer:

As we considered our outlook for the June quarter, we have been cautious given the macro uncertainty. We are executing well in the current operating environment and managing our expenses closely. We are generating positive cash flow. Our balance sheet is strong. Our customer design activity is growing very nicely. In addition to solid business execution, we remain very focused on developing edge intelligence solutions with compute and connect for our customers. With that, I'd like to ask the operator to open the call for Q&A. Thank you.

Conference Operator | Operator:

Thank you. We will now begin the question and answer session. To ask a question, you may press star then 1 on your telephone keypad. If you are using a speakerphone, please pick up the handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then 2. At this time, we will pause momentarily to assemble our roster. Our first question comes from Jason Smith from Lake Street. Please go ahead.

Jason Smith | Analyst, Lake Street:

Thanks for taking my questions. Just curious what the NetCom contribution was in the March quarter. And I know you noted that you've been pleased with sort of customer engagement on that. But how should we think about potential growth of that business going forward?

Salil Al-Saray | President and Chief Executive Officer:

Hey, Jason. Salil here. Thank you for that question. As we mentioned when we did the acquisition, that we expect the revenue to be \$6 million to \$7 million on an annualized basis. We are tracking to exceed that run rate. And if you remember, I'd spoken, we should expect to be 15 to 20% higher than that run rate if you think about it on an annualized basis. The second part is how are the customers tracking? The majority, the two big customers are Vodafone and Coca-Cola. I've spoken to them before, and they seem to be very well engaged with us. But what has happened is... Some of the other customers that we were working with are also opportunities for some of our other products like out-of-band and some of our other industrial IoT products that we have. So in the mid to long term, this is going to be very good as we put it all together with the Lantronics products and the Netcock acquired products. And one key aspect that we really like the business for was for the 5G, and we got that 5G product, and it's already sampling.

Jason Smith | Analyst, Lake Street:

Okay, that's really helpful. And then just given the current macro, curious what you're seeing from sort of a quoting activity and order pattern perspective so far here in Q4.

Salil Al-Saray | President and Chief Executive Officer:

Great, great question with the macro. And, you know, the organization is ready. We've been handling the changes that are ongoing, and we feel really confident where we're at. So a few points. We're not seeing any cancellations, push-outs. or any unnatural behavior from our customers. The design activity is continuing to be just fine. And in the prepared remarks, maybe we talked about how we are managing it and adding a little bit more color to this. We will be pretty much out of our China manufacturing by early FQ-126. Maybe you want to add to that a little bit, Brent.

Brent Stringham | Chief Financial Officer:

Yeah, we, you know, this has been an ongoing process for the last few quarters already before all these tariffs were announced. So we've, you know, we're seeing the last remnants of some of the netcom acquired manufacturing playing out over the next quarter or so. And really, from a metric standpoint, you know, we have less than 5% of our products that are manufactured in China are destined for the U.S. And as Salil said, you know, we're in the process of fully decommitting from China in the next, you know, 90 days or so.

Jason Smith | Analyst, Lake Street:

Gotcha. And then just the last one from me, and I'll jump back into Q. Just following up on some of those comments, has the macro changed how you're thinking about current expertise in fiscal 26?

Salil Al-Saray | President and Chief Executive Officer:

You know, they continue to do their deployment. We continue to remain engaged with them. There is nothing new for me to add other than the fact that, you know, we are in good conversations with Grits for Tees. Their deployment is ongoing, and we are engaged, and we are still single-sourced. That's, you know, the clarity that I have for you on specifically Grits for Tees.

Jason Smith | Analyst, Lake Street:

Okay. Appreciate that call, you guys. Thanks a lot. Thanks, Jason.

Conference Operator | Operator:

Yes. Thank you. Our next question comes from Scott Sewell from Roth Capital. Please go ahead.

Scott Sewell | Analyst, Roth Capital:

Hey, good afternoon. Thanks for taking my questions. Hey, Sewell, maybe just to jump in on the edge compute side of the equation, a lot going on from a product development standpoint starting at CES, I think continuing at Mobile World Congress. I wonder if you could give us some updated thoughts in terms of what that engagement design activity pipeline looks like When we should start to see some revenues, how quickly does that ramp up in fiscal 26 and kind of frame in the opportunity?

Salil Al-Saray | President and Chief Executive Officer:

Great question, Scott, and thank you for that question. Our edge AI initiatives and focus is starting to pay off. First one was we announced with Teledyne FLIR, a cooperation where our product is in their new thermal imaging camera. and it's going to go into production shortly, I believe. So we're working with them on that. Specifically, three areas were where we were focused on. One was drones, robotics, and security and surveillance. I'm very pleased to report our first drone customer, if all the trials complete well, will go into production in the June quarter, small amounts. But as we then go into the fiscal 26, it's going to start to pick up speed. On the surveillance side, we are engaged with two companies where they're looking at our technology to put into their new, I would call it AI-enabled cameras, Scott. So in 26, we do see revenue from the AI activities that we are doing specifically around cameras. From a market size, as you've seen the numbers, Grandview, you know, all of these folks are talking about, you know, markets in the billions of dollars longer term. we do believe that we will be able to grow nicely with some of the engagements. And we've really been laser-focused enabling cameras with Edge AI, and that's what we do really well. So I'm happy to report that we have our first design and hopefully first volume shipments in this quarter. It's a start, but it will pay off in fiscal 26.

Scott Sewell | Analyst, Roth Capital:

Great. Thank you. It's good to see some of the traction momentum building on that front. And in terms of the guidance for the June quarter, I'm wondering at this point a couple things, like what visibility do you have to that range at the current time? What are kind of the swing factors on that front to the upside and the downside? Is grid expertise, you know, part of the equation at all in the June quarter? And then I know it's early, but I'm wondering if you could give us your initial thoughts in terms of growth into fiscal 26. It looks like the decks are cleared here with grid expertise now largely out of the numbers. You know, what are the early thoughts in terms of how that's starting to shape up? I know it's outside of the near-term tariff window, but I'd love to get your initial thoughts. Thanks.

Salil Al-Saray | President and Chief Executive Officer:

Yeah, yeah. Thanks for that, and let me try to take one at a time. For the June quarter, we have no grids for these revenues, similar to what it was for the March quarter. So, as you can see, our base business is starting to grow. I'm very pleased to tell you that. As I think about... where we are sitting today. Without getting into the details, our bookings were good last quarter. Our bookings continue to be good this quarter. So as I said in my prepared remarks, Scott, I was very prudent and cautious with the number that we put out there. So sitting today, we feel fine about the number we put out there for you guys. And we were cautious as we thought about it. So we did not go over our skis by any means. And as I think about the future for 26, you know, from the run rate business that we are at now from this quarter or last quarter, we should definitely grow double digits. And we have the design momentum and customers that we're working with that will allow us to show that.

Scott Sewell | Analyst, Roth Capital:

Very helpful. Lastly, just – On the out-of-band side of the equation, I'm just wondering some updated thoughts on that front. It's tended to be a little, I think, volatile over several quarter periods. But are you starting to get some stability and I'll call it recurring customers in terms of their buying patterns here? Thank you.

Brent Stringham | Chief Financial Officer:

Yeah. Hey, Scott. This is Brent. Thanks for the question. Yeah, as you mentioned, you know, we've seen some lumpiness in that business. And that's largely because, you know, as we know, it's dependent on, you know, project-based capital spending. and also to a certain amount of federal spending, which, you know, there's some slowdown there. So we're seeing good momentum with the pieces we put in place at the company, resources and the like, and we feel good about the business going forward and kind of expect to get out of the slowdown we've seen over the last quarter or two going forward.

Salil Al-Saray | President and Chief Executive Officer:

And, Scott, let me just add, we brought in a new general manager to run that business, and we feel really good about it. He comes out of open gear, and I think you know those guys. So I anticipate we will start to see some good momentum, you know, in the probably second half of 26 from where we're at with some new design and activity.

Conference Operator | Operator:

Great.

Salil Al-Saray | President and Chief Executive Officer:

Thanks so much. Thanks, Scott.

Conference Operator | Operator:

Thank you. A reminder to all the participants, if you wish to register for a question, please press star then one on your telephone keypad. Our next question comes from the line of Christian Schwab from Craig Hallam Capital Group. Please go ahead.

Christian Schwab | Analyst, Craig Hallam Capital Group:

Thanks for taking my question. I just want to follow up on the commentary you just made just a few seconds ago that you're confident you can grow, you know, double digits again in 2026. Is that based on, you know, obviously Netcom rolling in, but, you know, does that, you know, include grid expertise coming back and large, you know, digestion of previous orders being done? Or is that just based on the core business and expansion of opportunities, partnerships with TD, you know, or, you know, new design winds ramping, you know, through your Qualcomm relationship, any color there would be great.

Salil Al-Saray | President and Chief Executive Officer:

Christian, thank you for that question. So, as I said, you know, from the base business that we are at today, you know, it's for 28 and a half approximately, we definitely see a growth of 10%, double digits, could be 10, could be 12% from a couple things, design activity, the Qualcomm relationship with new products that we're releasing, new industrial IoT products coming. Also, without a ban, we're releasing a new box that's going to be coming out in probably 90 days. So all of that is in my plan and the company's plan as you think about fiscal 26 from the run rate we're at now. Without getting into too much with Gridspertise, All I'll say is they need to get their deployments done, and I'm working with them closely, but I wouldn't say I'm putting any big numbers for Grids for Tees in the number. Does that kind of give you enough clarity?

Christian Schwab | Analyst, Craig Hallam Capital Group:

That's great, Colin. And then my last question is, you know, are you still currently the only sole supplier to Grids for Tees should they – digest the inventory they have in their rollout and get back on track, would you still be the only one they would call?

Salil Al-Saray | President and Chief Executive Officer:

Yes, we are single-sourced with them, and we continue to be single-sourced. And as I've spoken in the past, they're doing a few POCs in the U.S. and things like that. I'm hopeful for the longer term, but, you know, we've helped them, we've shipped a lot of product, We are still working with them, but, you know, I've tried to delist the number as much as I can. So does that make sense? Like we are fully only the single source with them right now. And that I've confirmed as of a month ago.

Christian Schwab | Analyst, Craig Hallam Capital Group:

Perfect. That's all my questions. Thank you. Thank you so much.

Conference Operator | Operator:

Thank you. This concludes our question and answer session. I would now like to turn the conference back over to Salil Afsari for closing remarks.

Salil Al-Saray | President and Chief Executive Officer:

Thank you, everyone, for joining the call. And we will be in Minnesota at the Craig Haaland Conference the week after Memorial Day. Thank you so much.

Conference Operator | Operator:

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