NASDAQ:LTRX Q1 2026 Earnings Call Transcript

Generated on 6/17/2026

Conference Operator | Operator:

And welcome to the Landtronics Inc. 2026 First Quarter 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 one on a touch-tone phone. To withdraw your question, please press star then two. 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 | Chief Financial Officer:

Good afternoon, and thank you for joining our fiscal first quarter 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 Saleel.

Salil Al-Saray | President and Chief Executive Officer:

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 4 cents, both at the high end of our guidance range. Revenues grew 3% sequentially and 3% year-over-year, excluding grids for teas, underscoring the progress we have made in positioning Lantronics for profitable growth. Importantly, non-GAAP EPS improved from 1 cent 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 favorable for Landtronics. 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 remains 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 scaled production with Red Cat Steel 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 drone's 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 few recent developments. We introduced our Edge AI Drone solution, which integrates payloads from Gremsi and Teledyne FLIR. Working with these partners, we completed a reference design that validates the solution's 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 Lantronics and positions us for potential upside to our initial expectations as these programs scale to 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 OpenCUE system and module, or SOM solutions, EdgeFabric.ai enables customers to design and deploy AI applications 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, Edge Fabric.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 partner with Vodafone IoT to launch Compress.ai by Lantronics, 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, Compress.ai reinforces our execution of the long-term strategy to build scalable platforms that expand recurring revenue and strengthen a 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 and 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 | Chief Financial Officer:

Thanks, Salil. 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 Salil 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 grid expertise. 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, gap gross margin was 44.8%, up from 40% last quarter and 42.1% a year ago. On a non-gap basis, gross margin was 45.3%, and improvement from 40.6% in Q4 and 42.6% in the prior year quarter. The increase reflects a more favorable 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. Gap net loss for the first quarter of fiscal 2026 was $1.4 million, or 4 cents per share, compared to gap net loss of $2.5 million, or 7 cents per share, in the year-ago quarter. On a non-gap basis, we reported net income of $1.5 million, or 4 cents per share, compared to non-GapMed 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 31st, 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 two to four cents per share. With that, I'll turn the call back to Saleel for closing remarks.

Salil Al-Saray | President and Chief Executive Officer:

Thanks, Brent. The 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 risk fatigue, 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 servers. 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.

Conference Operator | Operator:

We will now begin the question and answer session. To ask a question, you may press star then 1 on your touch-tone phone. If you are using a speakerphone, please pick up your 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. The first question today comes from Ryan with Needham & Co. Please go ahead.

Ryan | Analyst, Needham & Co.:

Great, thanks. Nice quarter, guys. With regards to the drone opportunities, Salil, can you maybe outline, like, where we are in this kind of adoption period? You talk about some wins. When you count a win, you count that as a design win. What gives you confidence that, you know, it's yours? And what's the competitive landscape like for you there? Thank you.

Salil Al-Saray | President and Chief Executive Officer:

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, you know, 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 | Analyst, Needham & Co.:

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

Salil Al-Saray | President and Chief Executive Officer:

Yeah, thanks for that question. So as we had mentioned earlier, we have the generator win with the 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 Compress.ai, which is focused more on the compressor space, but based on the same theme, which builds on our successes at the tier one 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 | Analyst, Needham & Co.:

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

Salil Al-Saray | President and Chief Executive Officer:

Yeah. Compress.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 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, you know, 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 | Analyst, Needham & Co.:

Got it. Great. I'll get back to you. Thank you.

Salil Al-Saray | President and Chief Executive Officer:

Thank you, Ryan.

Conference Operator | Operator:

The next question comes from Scott Surley with Roth Capital. Please go ahead.

Scott Surley | Analyst, Roth Capital:

Hey, good afternoon. Thanks for taking the questions, and nice job on the quarter. Hey, Sulil, 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 dramatically, your expected timeline to get to 10% to 15% of sales, and then I have a follow-up.

Salil Al-Saray | President and Chief Executive Officer:

Thank you for that question, Scott. Let me start with the second question first because it's current. Most of the defense drone and UAS are funded through multi-year contracts, so we are seeing minimal to no disruptions to our existing work. So as I said today, we are full on with the customers. We are shipping to them, so no disruptions. 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 prospectively on this? Going on to the out-of-band one, we are seeing growth in out-of-band from the June quarter to the September quarter. 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 Audubon as we go through the fiscal year. More importantly, we are going to be introducing a brand-new Audubon 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 Surley | Analyst, Roth Capital:

Gotcha. 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 compress, attacking the compressor market. Two things. I guess I'm wondering – how big of an opportunity can that be as you look at 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?

Salil Al-Saray | President and Chief Executive Officer:

So, again, I 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, won't be going through details this time around, is robotics. You know, humanoid robots are gonna 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 ARRs, as I said, our first foray into ARRs happened with the MNO opportunity, as we said, 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 Surley | Analyst, Roth Capital:

Great. Thanks so much. I'll get back to you.

Conference Operator | Operator:

The next question comes from Christian Swab with Craig Helen. Please go ahead.

Christian Swab | Analyst, Craig-Hallam:

Yeah, thanks for my question. And congrats on a good quarter. I guess it wasn't clear to me, you know, with 17 OEM, you know, 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, you know, you know, fiscal year 2027?

Salil Al-Saray | President and Chief Executive Officer:

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

Christian Swab | Analyst, Craig-Hallam:

Okay. And then, you know, last quarter, you highlighted, you know, a Tier 1 telecom service provider. I think it was, you know, in the backup power systems. you know, 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?

Salil Al-Saray | President and Chief Executive Officer:

Yeah, we recognize 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 then... Go ahead. I'm sorry. No, no. Last word. It's progressing nicely is all I was trying to say, Christian.

Christian Swab | Analyst, Craig-Hallam:

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

Salil Al-Saray | President and Chief Executive Officer:

So we get quarterly orders from them. So maybe the way to think about it is it's a run rating business now. We 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're 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. Great.

Christian Swab | Analyst, Craig-Hallam:

Thank you. No other questions. Thank you.

Salil Al-Saray | President and Chief Executive Officer:

Thank you, Christian.

Conference Operator | Operator:

The next question comes from Scott Tierley with Roth Capital. Please go ahead.

Scott Surley | Analyst, Roth Capital:

Hey, just two quick follow-ups on the financial front. 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, Salil, 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 a sequential progression of the revenue stream over the next couple of quarters. Thanks.

Brent Stringham | Chief Financial Officer:

Yeah, Scott, thanks. On the gross margin, you're right. Last quarter, we talked about returning from a down quarter, 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.

Salil Al-Saray | President and Chief Executive Officer:

Yeah, 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 companies 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 Surley | Analyst, Roth Capital:

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

Salil Al-Saray | President and Chief Executive Officer:

Yeah. Again, we do quarterly guidance, so put it in perspective. YOY, without good expertise, we are growing close to 20%, Scott. That's darn good. So I expect sitting here today, you know, 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 Surley | Analyst, Roth Capital:

Great. Thanks so much.

Salil Al-Saray | President and Chief Executive Officer:

Thank you, Scott.

Conference Operator | Operator:

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

Jason Schmidt | Analyst, Lake Street:

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?

Salil Al-Saray | President and Chief Executive Officer:

Yeah, Jason, 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 Compress.ai, we've opened a new market, 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.

Jason Schmidt | Analyst, Lake Street:

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?

Salil Al-Saray | President and Chief Executive Officer:

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 margins. So I expect to continue where we are at right now. But, you know, Brent can add to it.

Brent Stringham | Chief Financial Officer:

I think that's generally accurate, Jason. I mean, with 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.

Jason Schmidt | Analyst, Lake Street:

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

Conference Operator | Operator:

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

Salil Al-Saray | President and Chief Executive Officer:

Thank you very much, everyone, for joining the call. We will be at the Craig Hallam and the Robb Conferences in New York in a couple of weeks. Thank you so much.

Conference Operator | Operator:

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