NASDAQ:LTRX Q3 2026 Earnings Call Transcript

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Operator | Conference Operator:

Welcome to the Lantronics Q3 2026 earnings call. At this time, all participants are in the listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by a zero. After this presentation, there will be an opportunity to ask questions. To ask a question, you may press star and then one on your touchtone phone. To withdraw your question, you may press star and then two. Please note this event is being recorded. I'd like to turn the conference over now to Mr. Brent Stringham, Chief Financial Officer. Thank you and over to you.

Brent Stringham | Chief Financial Officer:

Good afternoon, everyone, and thank you for joining our fiscal third quarter earnings call. Joining me today is our President and Chief Executive Officer, Salil Alsare. 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. Lantronics 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 Salil.

Salil Alsare | President and Chief Executive Officer:

Thanks, Brent, and thank you, everyone, for joining today's call. We delivered revenue of $30.2 million and non-GAAP EPS of $0.04, both within our guidance range. Our embedded IoT solutions portfolio delivered extremely robust growth of 22% year-over-year, driving overall sequential and year-over-year revenue growth for the company. This performance reinforces our position as a critical onboard edge compute platform for unmanned systems, an increasingly important contributor to our business. Gross margin also remains strong at about 43%, supported by a richer mix of higher margin products and recurring revenue across the portfolio. Overall, these results reflected disciplined execution, and continued momentum across the business. Turning to our results, we continue to see strong demands for unmanned systems or drones supported by favorable industry and military tailwinds that position Lantronics for sustained growth. Our customer list in unmanned systems continues to expand, reflecting both the effectiveness of our drone strategy and the increasing need for reliable, real-time computing solutions. Drones are physical AI in action, and we deliver that capability to our customers by enabling economy, edge compute, and real-time decision-making, further increasing the value of our technology. The FCC's December 2025 action, which bars DJI and other foreign drone makers on the covered list from obtaining approval for new drone models in the US has meaningfully improved the outlook for domestic and trusted supplier platforms. This environment strengthens our competitive mode as a US partner that is both NBAA and TAA compliant, providing trusted and secure AI enables edge compute platform solutions for the Group 1 and 2 drone ecosystems. Further, we are expanding both our capabilities and the number of active engagements. Our SOMs, or system and modules, provide the onboard edge compute foundation for greater autonomy. which is becoming increasingly critical as mission complexity rises

and the market pushes beyond what human operators alone can support. In aerospace and defense, scale will require more intelligence, more autonomy, and Lantronics is helping enable that shift. As a result, we are moving up the tech stack, evolving from supporting the camera to enabling full intelligent drone and counter drone systems. In parallel, growing interest in swarming and coordinated autonomy is driving demand for larger fleets requiring more advanced edge AI and machine learning based compute solutions to support increasingly complex missions. Beyond the drone itself, We are expanding our role into counter UAS and spectrum dominance applications. These markets require high performance, low power compute to process sensor data and enable real-time decision making in contested environments. As systems become more intelligent, connected, and electronically aware, we expect our and broader technology to play an increasingly central role across more of the mission stack. Given the growth opportunity ahead, we are investing to scale. We are expanding our technical R&D talent to deepen our capabilities and capture more opportunities across the drone ecosystem, while also expanding our dedicated drone sales effort. As the unmanned aerial systems market continues to heat up. New entrants will emerge. However, our first mover advantage positions to become the go-to provider for unmanned systems compute, and these investments are designed to strengthen the moat around our business as a critical platform partner to the unmanned ecosystem. In parallel with those investments, We are also advancing the product and technology initiatives that will support our next phase of growth. During the quarter, we announced the advancement of our multi-silicon strategy with Mediatek's Genio family of system-on-chip or SoC platforms, strengthening our ability to serve a wide range of edge AI and industrial IoT applications. Mediatek's SoCs deliver strong AI performance with processing power comparable to our Qualcomm platforms while offering a feature set highly optimized for industrial and commercial use cases. By adding MediaTek, we are filling important use case coverage in our portfolio. Both MediaTek and Qualcomm are highly capable edge AI compute solutions and together allow Lantronics to serve a broader set of customers and end markets with architectures tuned to their specific requirements. Diving deeper, we continued to build momentum during the quarter. We significantly expanded the number of OEMs we engaged with and now our ship product to over a dozen of these partners. Importantly, we recently converted one of these engagements into a design win. Another drone as a first responder program, with one of the largest US-based body camera makers. This adds a new BFR customer and further validates our position as a leading computing connectivity provider across the UAS ecosystem. We also secured a new customer win with a payload that identifies hostile drone operators, marking our expansion into counter drones. This new win reinforces our role as a trusted partner in mission-critical applications, underscoring our expanding relevance into counter-unmanned systems, where FPV drones are used to detect, track, identify, and mitigate hostile systems in contested environments. More broadly, it demonstrates our Edge AI drone solutions support the full UAS ecosystem, including counter-drone use cases. In addition to expanding capabilities and applications, we have been growing beyond the U.S. market into international markets, as we are now supporting global expansion with REDCAT as they enter NATO and across the Asia Pacific. We also made our first shipment to Evolve Dynamics, a UK-based developer of unmanned aerial systems serving the defense, emergency response, and critical infrastructure markets. Expanding our unmanned OEM customer base internationally is an important part of our growth strategy, and this shipment marks another step in expanding our reach across the global autonomous system ecosystem. Additionally, we recently engaged with multiple Ukraine drone makers. Ukraine is becoming one of the most leading edge and fastest evolving market for unmanned systems globally. And its domestic drone companies have demonstrated remarkable real world performance. As the United States Department of War continues to increase its investments in unmanned systems, Collaborating with leading Ukrainian innovators provide us with critical insights and validation opportunities for our technology in highly demanding real-world environments. We are seeing a broader shift towards trusted platforms, with customers increasingly moving away from Chinese components towards NDAA-compliant solutions. This transition is creating meaningful opportunities for Lantronics, particularly as customers evaluate our products, such as our drone reference platform, which helps shorten development cycles and accelerates evaluation to deployment. Further, in March, we formed a strategic collaboration with Unusual Machines to support the next generation of unmanned platforms. This partnership combines Lantronics' edge compute and integrated connectivity solution with UMAX flight components to help accelerate deployment timelines, enhance ISR and autonomous capabilities across aerial systems. Together, this enables both companies to pursue emerging

opportunities tied to the Department of War's drone dominance program, and we believe we are well positioned to capitalize on this near-term growth opportunity. We are encouraged by the early progress made during the collaboration so far, and we'll release additional updates as appropriate. We are making a concerted effort to strengthen our position in the unmanned ecosystem by scaling the platform and introducing new capabilities that support faster, easier, and more effective deployments. As we expand the platform, we are building an ecosystem around it, one that enables customers and partners to adapt, integrate, and scale solutions more seamlessly. We are encouraged by the momentum we've built in unmanned systems since entering the market just over a year ago. And we are once again increasing our fiscal 2026 drone outlook now to a range of $10 million to $14 million. Our team is executing with urgency, and we continue to see a clear path for unmanned systems to represent 15% to 20% of overall revenue in fiscal 2027. Moving to software and services, we remain excited about the expanding ARR we are seeing. Over the last two quarters, we have expanded our software and services mix from 5% to 6% to 8% to 9% of total revenue, and we see a clear path of sustainably reaching double digits over the midterm. This confidence is driven by our ability to layer high-value software and services onto a growing in-store base of hardware already in the field. As we integrate capabilities such as device management, analytics, AI orchestration, we are not only expanding recurring revenue streams, but are also improving overall mix and increasing the lifetime value of each deployment. Over time, we believe this will drive greater revenue visibility, stronger margins, and a higher quality business model overall. On IoT system solutions, we continue to experience slower federal spending and extended procurement cycles, particularly with our core enterprise and networking products, which includes media converters and out-of-band management. Federal customers are moving more cautiously, and continued government shutdowns have resulted in slower ordering patterns and a more measured pace of conversion. That said, these are timing dynamics. not demand issues. Importantly, enterprise and networking continue to deliver margins well above our corporate average and provide strong cash generation, giving us the ability to reallocate resources into near higher growth opportunities, such as unmanned aerial systems and critical infrastructure monitoring. In summary, I'm encouraged by our third quarter performance and the discipline of our execution. as we continue to deliver strong margins and profitability. We are hyper-focused on growing the business, and we are putting the right team and capabilities in place to capture the growing opportunities we are seeing. Before passing the call over to Brent, I want to highlight a couple important developments, starting with a key leadership addition for our next phase of growth, In March, we appointed Sano Marciano as our new vice president of operations, bringing years of leadership experience across global operations, manufacturing, and quality. Also in March, we participated in ISC West 2026, where we showcased smart switch AI, smart edge gateways, and our edge AI solutions for autonomous systems. We saw strong interest in both our drone reference platform and smart switch, particularly from security and surveillance customers evaluating next-generation perimeter monitoring and agentic edge network configuration monitoring and proactive maintenance. A consistent theme was a growing shift towards drone-based surveillance for large compounds complementing or in some cases reducing reliance on fixed parameter camera infrastructure, an area where we are uniquely positioned. We offer an integrated full stack solution that spans switches and drones, offering customers a single differentiated partner for autonomous perimeter security. Nobody else in the market can deliver the breadth we provide. With that, I'll turn the call back to Brent to cover financial results. Brent?

Brent Stringham | Chief Financial Officer:

Thank you, Salil. I'll first start with our fiscal third quarter financial results and some of the key drivers behind our performance, after which I'll provide our outlook for the fourth quarter ending June 30, 2026. As previously discussed, our current quarter revenue was $30.2 million. We saw sequential and year-over-year growth driven by strength in embedded compute products, including our A&D and drone programs, and continuing momentum in software and services revenues. Federal customers are moving cautiously, resulting in slower ordering patterns for our core enterprise and networking products. However, like Salil mentioned, we believe these are primarily timing dynamics, not demand issues, and we should benefit once this market normalizes. Turning to our gross margins, In the third quarter, GAAP gross margin was 43.1%, roughly flat

compared to a year ago. On a non-GAAP basis, gross margin was 43.6%, slightly down compared to a year ago. Our current quarter margins reflect the revenue mix we have spoken to with embedded IoT solutions, particularly our compute products, driving our growth. We continue to remain focused on discipline cost management that has driven our execution over the last year, which we expect to contribute to sustaining our gross margins near current levels. Looking at expenses and profitability, GAAP operating expenses in the third quarter of fiscal 2026 were 14.1 million, nearly flat with the prior quarter and down approximately 12% from 16 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. Gap net loss for the third quarter of fiscal 2026 improved to $1.2 million or $0.03 per share compared to gap net loss of $3.9 million or $0.10 per share in the year-ago quarter. On a non-gap basis, net income of $1.5 million or $0.04 per share was consistent with the prior quarter and then an improvement from the $0.03 per share in the year-ago quarter. Moving to the balance sheet, we ended the quarter with cash and cash equivalents of $23.5 million, an increase of approximately $500,000 from the prior quarter and $3.5 million from the year-ago period. During the current quarter and fiscal year-to-date periods, we generated positive operating cash flow of nearly $2.2 million and $7.9 million, respectively. Net inventories were $26.4 million as of March 31, 2026, compared to $27.1 million last quarter and $28.2 million in the year-ago quarter. Our current debt balance is $8.7 million, after having paid down about another $1 million during the current quarter. In the last 12 months, we have lowered our debt balance by nearly $4 million. Our net cash position on March 31, 2026 was approximately $14.8 million. Lastly, our outlook for the fourth quarter of fiscal 2026 ending June 30, 2026 is as follows. We expect revenue to be in the range of $29 million to $33 million. Non-GAAP EPS is expected to be in the range of $0.03 to $0.05 per share. Now that's just a way out for some closing remarks.

Salil Alsare | President and Chief Executive Officer:

Thanks, Brent. Before turning to Q&A, I want to leave you with a few key takeaways as we approach the end of fiscal 2026. We remain highly confident in the opportunity ahead in unmanned systems. This market is scaling rapidly, supported by strong customer engagement, favorable regulatory dynamics, and an expanding base of OEMs and end market relationships. We continue to broaden our customer roster, win new programs, and deepen our role with existing partners. At the same time, we are moving up the technology stack beyond cameras, adding more intelligence, secure connectivity, and system-level capabilities, further positioning Lantronics as a more strategic and valuable partner over time. At the midpoint of our raised drone outlook, we are targeting $12 million in revenue this fiscal year. We recently had one of the largest funding catalysts yet with the fiscal 2027 Department of War budget release and a record $75 billion proposed for unmanned and autonomous systems through the Defense Autonomous Warfare Group, or BAWG. reinforcing our view that the super cycle is accelerating across the ecosystem. Looking ahead, we continue to expect drone revenue to roughly double in fiscal 2027 and represent approximately 15 to 20% of the total revenue. Just over nine months ago, drones contributed minimal revenue, Today, they are becoming a meaningful growth driver and helping propel our next phase of growth. As Brent mentioned, our Q4 outlook points to a strong finish to fiscal 2026. We believe we are operating from a position of strength and have greater confidence in our growth trajectory today than at any point since beginning the transformation. In embedded IoT, revenue grew by over 20% year-over-year, driven by strong traction in unmanned systems. We have raised our drone expectations once again, supported by a growing number of shipments, new customer engagements, expanding use cases across drone and counter drone applications. We are also broadening our geographic reach with new international customers, further validating Lantronics' role as a trusted edge AI compute partner for the unmanned systems ecosystem. In critical infrastructure monitoring, we completed deployment of our tier one MNO customer and are adding ARR to the business, which we expect will support higher margins and greater revenue visibility over time. We also see additional land and expand opportunities in adjacent high-value cell power applications, including power banks and rectifiers. While Compress.ai continues to gain traction in the industrial compressor market. The progress we made repositioning Lantronics towards a higher growth vertical is becoming increasingly evident in our results, and we believe the momentum we built, we carry into next year. Based on what we have seen today, we expect to

deliver double-digit revenue growth in fiscal 2027, marking an important next step in Lantronics' evolution towards a more focused, faster-growing, higher-quality, and more profitable business. With that, operator, we will now open the call for questions.

Operator | Conference Operator:

Thank you. We will now begin the question and answer session. Participants who wish to ask a question may press star and 1 on your touchtone telephone. If you're 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 and then 2. At this time, we will pause momentarily to assemble our roster. We are the first question from the line of Scott Searle from Roth Capital. Please go ahead.

Scott Searle | Analyst, Roth Capital:

Thanks for taking my questions. Hey, Salil, maybe just to jump in on the drone front, you know, it's a big range of 10 to 14 million, which implies a wide variance in the June quarter. I'm wondering if you could just give us an idea of why you're seeing such a wide range in the existing June quarter. And then as we're looking out to fiscal 27, it looks like you're expecting the business to nearly double, somewhere in the ballpark of 20 to 30 million. I'm wondering if you could talk a little bit about you know, some of the levers in either direction there, be it is dollar content increasing for you? Do you have to acquire some additional technologies to continue to drive the presence there? Or is it just unit growth and more customers that you're engaged with going into commercial production?

Salil Alsare | President and Chief Executive Officer:

Scott, thank you for the question. I guess you're right. We put the range because we've always done a $2 million range. We are confident about our midpoint, about 12th. Remember, the midpoint last quarter was 10, and a few quarters back, we had said around 5 to 7 million range. So we are confident about the $12 million midpoint. I hope I answered your first part of your question. The second one, the growth, we are seeing across the whole spectrum of drone business or unmanned systems. It's going beyond drones now into counter drones with spectrum dominance and things like that. We have invested it, and we are seeing growth. We're also seeing early shoots on unmanned on the ground and in the sea. So all those areas, we do that. And to your point, we expect to grow the business, you know, double the business into fiscal 27, sitting where we are at today with the list of customers we are working with, the programs that we've aligned, and it's now, as I've mentioned, beyond just aerospace and defense. drone as a first responder. We're getting into commercial areas. So really a very positive picture as I look forward for the next 12 months.

Scott Searle | Analyst, Roth Capital:

Great. Very helpful. And if I could just follow up then, the media tech relationship is interesting in terms of diversifying your silicon base, but they also have a pre-existing strong channel into areas such as robotics. I wonder if you could just give us some updated thoughts on that and when we might expect A first design went on that front. And then for Brent, real quickly, just can you help calibrate us in terms of the IoT system solutions business, the mix of federal business on that front? Thanks so much.

Salil Alsare | President and Chief Executive Officer:

Yeah, so let me do the MediaTek real quick, and then I'll pass it to Brent. MediaTek, to your point, we announced it at Embedded World mainly because anything with vision, they're in the robotics space. Robotics is strong in Asia. They're a big partner for us. And additionally, it's going to go into Europe. and Asia, which is the focus now. And they felt the capabilities Lantronics brings with what we have done in our edge compute and edge AI solutions, they thought was a good partner for us. So I expect design ins and design wins coming up this calendar year.

Operator | Conference Operator:

Greg, go ahead.

Brent Stringham | Chief Financial Officer:

Yeah, and then Scott, I think you're asking about kind of the mix of federal and our IoT systems business You know, it does fluctuate from quarter to quarter, but, you know, right around 15% to 20% is kind of where we've traditionally seen that mix of business as a percentage of that segment that we disclose.

Scott Searle | Analyst, Roth Capital:

Great. Thanks so much. I'll get back in the queue. Thank you, Scott.

Operator | Conference Operator:

Thank you. We have the next question on the line of Austin Bolak from Needham. Please go ahead.

Austin Bolak | Analyst, Needham & Company:

Hi guys, thanks for taking my question and congrats on the great unmanned system results. Just wanted to piggyback off the 2027 question. And now that you guys are expanding, it sounds like internationally nicely. What can we assume of this kind of double guide for 2027 of what's US versus international?

Salil Alsare | President and Chief Executive Officer:

Thanks for the question, Austin. Right now, you know, huge majority of our revenue is domestic. Our first international design win, and we shipped to Evolve Dynamics out of UK. They won a UK defense contract, so we are involved with that. What I'm uber excited about is what's happening in Ukraine. And you're familiar with that. As the Ukrainian supply chains pivot away from China to NBAA and TAA certified, we are now seeing early engagements. I'm going to be at Exponential next week, which is a big drone show. I have a bunch of meetings with some of the senior executives who got companies out of Ukraine, and the ability and capabilities they're going to bring is also going to be phenomenal. So autonomy is key, and edge compute is key, and we enable both of that. So I don't have a specific number for how much international is going to be for fiscal 27, but that's definitely a big growth vector for us. Gotcha.

Austin Bolak | Analyst, Needham & Company:

And then I guess kind of a follow-up based on that. So, like, with the wins that you currently have and this double guide, is this just baking in of what you have kind of with your customer wins today, meaning any kind of new wins could be potential upside to this number?

Salil Alsare | President and Chief Executive Officer:

Yeah, as I said, Austin, in my prepared remarks, the number doubling from where we are at today, is based on the visibility that we have with the customers that we're working with. As you are well aware, it's a dynamic market and changing pretty quickly. So as we go through the year, we keep on updating you as we see that. But definitely there is an opportunity to go up from here.

Austin Bolak | Analyst, Needham & Company:

Okay. And then I guess just one last one. The counter UAS market, super exciting. How should we be thinking about kind of, like the split between kind of counter and just maybe traditional UAS business?

Salil Alsare | President and Chief Executive Officer:

I think counter UAS is becoming a very important piece for the future. I had the great opportunity to meet with a few customers just within the last two weeks, and we've got our first design win there. And shipments there, as I mentioned, for spectrum dominance and just, you know, in a GPS-denied environment. And that often makes the need for edge compute because you need autonomy and you need to be able to do counter U.S. functionality when you're in a very GPS-denied environment. So our solution, the ability to run models and AI on it is very important. For us, it's an early start. So we've got a ways to go from winning customers, but our solution is working out really well. So that's another big vector of growth for us.

Austin Bolak | Analyst, Needham & Company:

All right. Well, keep up the great work, guys. Thanks for taking my questions.

Salil Alsare | President and Chief Executive Officer:

Thank you, Austin.

Operator | Conference Operator:

Thank you. Participants who wish to ask a question may press star and 1. We have the next question from the line of Austin Molo from Canaccord. Please go ahead.

Austin Molo | Analyst, Canaccord Genuity:

Hi. Good afternoon. first, could we discuss some of the involvement with the drone dominance vendors, and how might the IBUS defense industrial-based investments benefit your capacity as some of these programs ramp into production?

Salil Alsare | President and Chief Executive Officer:

Yeah, so, you know, 12 vendors got picked in the first tranche of DDP. We know who they are. We are working with some of them. There's another, I believe it's in the sorry, in the September timeframe, Austin, if I'm not mistaken, the second tranche, and we are engaged with a bunch of customers in that space, all requiring the need of edge compute and autonomy. So our device and our module is going to be well-suited for that. As for the IBUS program, which is going to, you know, so first of all, we're also going to be having our first blue UAS solution ready this quarter. So that's another big plus we've got in the work. So we'll be one of the first ones with a blue UAS compute module for this market. So we are getting ourselves more and more integrated with the Department of War and its suppliers as they move forward.

Austin Molo | Analyst, Canaccord Genuity:

Great. And if we look at the fiscal year 27 budget request, how does the $54.6 billion funding request for the Defense Autonomous Working Group, how should we think about backlog expansion for Lantronics over the next 12 to 24 months if that is passed by Congress over the summer?

Salil Alsare | President and Chief Executive Officer:

Yeah, Austin, the number is so large, and that's what I'm so excited about. So from your perspective, It's a game-changing amounts of dollars that are going into autonomy or autonomous unmanned systems. And we are the leader in the space. We have invested in it. And we are the compute solution, the go-to compute solution for this. And all of these solutions are going to need a compute platform. And we are right there. So I am ready as this expands. And we've got a bunch of inbounds now from customers wanting to qualify us, get our dev kits, do POCs. So as I said, the team is hustling with a sense of urgency. This is extremely exciting times at Lantronics. So I don't want to put a number out there, but it's game-changing amounts of dollars, so you can assume that. And in the past, as we said, our ASPs are between $400 to $700, so you can back the map into $12 million. I mean, it's a logistic change if it all goes through.

Austin Molo | Analyst, Canaccord Genuity:

Excellent. Exciting news. I'll pass it back there. Thank you.

Operator | Conference Operator:

Thank you. We have the next question from the line of Christian Squab from Craig Hill and Capital Group. Please go ahead.

Christian Squab | Analyst, Craig-Hallum Capital Group:

Hey, guys. I just have one quick question. Of the recent drone dominance that you referred to, are, you know, how many of the, you know, top ten people on that list do you think Could you tell us our current customers or prospective customers?

Salil Alsare | President and Chief Executive Officer:

We have – I don't want to go into the numbers, Christian, because some of them you've got NDAs with, and I'm not giving you any names. But we are well aligned with a bunch of those folks who are in the first 12, and we also know who are going for the second tranche. So I feel good about where we are at with the DDP. And by the way, the drone dominance program – Department of War has increased the ASP on it, so giving more room for these guys to add additional AI, machine learning, and compute in their products. So we are well situated as I look at it.

Christian Squab | Analyst, Craig-Hallum Capital Group:

Great. No other questions. Thank you.

Salil Alsare | President and Chief Executive Officer:

Thank you, Christian.

Operator | Conference Operator:

Thank you. We have the next question from the line of Kevin Cassidy from Rosenblatt Securities. Please go ahead.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Right. Yeah, thanks for taking my question, and congratulations on the great progress. I was just along the lines of, you know, what are the key factors that you need to expand your gross margins? Is it increasing the technology stack? Is it the volume? You know, what are the key factors, or is there a factor to expand gross margin?

Salil Alsare | President and Chief Executive Officer:

So let's put it in perspective, Kevin, as I think about it. Literally, Q4 of 24, our gross margins were in the high 30s. We've been in the 43 to 45 range for the last three quarters. So we made good progress towards improving the gross margin. I'd like to start moving at about 45%. So how are we going to do it? One is software and services, which was 5% to 6%. a few quarters back is now eight to 9% of the revenue going up to 10 to 12% pushes the gross margin up. As importantly or more importantly on our drone business, which we said, you know, it's gonna be up the numbers to 12 million for the fiscal year at the midpoint, adding more software around it, adding more machine learning and AI models adding a framework, moving up the tech stack. So running more of beyond just camera integration now to flight control to other technologies. So to your point, moving up the tech stack and providing a platform for our customers.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Great. Thanks for that detail. That's good. And maybe just as a follow-up on the media tech, adding media tech is another source. And you say it gives you a broader range. Is it geographically, or is it a price performance tradeoff that you'll be able to do?

Salil Alsare | President and Chief Executive Officer:

Good question, Kevin. Geographically, very much so. Allow us to be stronger in Asia-Pac and Europe in the future. Qualcomm is a great partner of ours. We've done really well with them. So that's number one. And number two, you hit it on the allowing us to play in some of the more price-sensitive markets that we need to be. And it kind of covers both of that.

Kevin Cassidy | Analyst, Rosenblatt Securities:

Okay. Understood. Great. Thank you.

Salil Alsare | President and Chief Executive Officer:

Thank you.

Operator | Conference Operator:

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

Salil Alsare | President and Chief Executive Officer:

Thank you again for your questions and joining us today. We appreciate your continued interest in Lanktronics and hope you will continue to join us on this journey. While we are encouraged by the progress we've made, we believe we are still ascending rapidly, with long flight ahead and plenty of altitude still to gain before reaching cruising altitude. I'll be at Exponential next week and the Needham Emerging Growth Conference, followed by the Craig Hallam Conference later this month. And I look forward to connecting with many of you there. Thank you again, and we look forward to updating you on our progress soon.

Operator | Conference Operator:

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