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LTRX - Q3 2020 Lantronix Inc Guidance Call

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Paul H. Pickle *Lantronix, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good afternoon, and welcome to the Lantronix Investor Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Jeremy Whitaker, Chief Financial Officer. Please go ahead, sir.

Jeremy R. Whitaker - Lantronix, Inc. - CFO

Good afternoon, everyone, and thank you for joining the Lantronix March Investor Update Call. Joining us on the call today are Paul Pickle, Lantronix President and CEO. A live and archived webcast of today's call will be available on the company's website. In addition, a phone replay will be available starting at 8:00 p.m. Eastern, 5:00 p.m. Pacific today through March 18, by dialing (877) 344-7529 in the U.S. or for international callers, (412) 317-0088 and entering pass code 10140282.

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 update, which was furnished with the SEC today and is available on our website and in the company's SEC filings such as its Form 10-Q and 10-Ks. Lantronix undertakes no obligation to revise or publicly update any forward-looking statements to reflect future events or circumstances.

With that, I'll now turn the call over to Paul Pickle, Lantronix Chief Executive Officer.

Paul H. Pickle - Lantronix, Inc. - President, CEO & Director

Thank you, Jeremy, and thank you to our analysts and investors joining us for this conference call on short notice. I expect by now you've seen our March quarter revenue guidance update release, which crossed the wire shortly after the market closed today. This announcement is probably no surprise given the pervasive nature of the COVID-19 and the resulting disruptions throughout the electronics industry supply chain and around the world. However, I wanted to take the opportunity to make some brief comments about our current view of the March quarter and also to give you an update as to how we are responding to the situation. We can then get right to your questions.

As outlined today in the release, we are updating our March quarter revenue expectations, currently expecting revenues to come in between \$15 million and \$17 million versus our initial guidance of \$18 million, plus or minus 10%. While it is also affected due to the current environment, we are not updating our non-GAAP EPS guidance at this time.

Discussions with our suppliers prior to our February 12 earnings call indicated that the supply chain disruptions were mainly due to the prolonged lunar holiday in China. We based our guidance on these discussions and built in some conservatism. Since that time, COVID-19 has only increased its reach and government-directed quarantines have exacerbated the disruption in the supply chain along with factory outputs continuing to run at partial capacity. That's the bad news. And while we are frankly disappointed with the lower expectation, it goes without saying this is an extraordinary and transient situation.



The good news is, we have seen no significant cancellations from customers, and while demand is slower from our customer base who see the same disruptions, end-market demand otherwise appears relatively healthy. While the spread of the virus is ultimately out of our control, we remain focused on what we can control. Here at Lantronix, we have been focused on the acquisition and integration of assets that will increase our IoT solution capability, our market size and ultimately, our revenue growth rate. While the integration to date has been on plan in light of the current environment, we are moving quickly to accelerate our efforts so as to further control costs and preserve profitability. Ultimately, we expect to emerge from this situation, a leaner and more profitable company.

On another positive note, our pipeline of opportunities is growing, and we are excited to report a new customer in the video conferencing markets recently launched production of its next-generation products using our solution. A leader in its field, the customer is upping its forecast and pulling in shipments to meet demand, subject to near-term supply chain constraints.

In closing, the pervasive nature of COVID-19 has slowed revenues in the near term, but we are moving quickly to control costs, preserve non-GAAP profitability while remaining steadfastly focused on the future of the new Lantronix.

With that, I'll stop here for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Jaeson Schmidt with Lake Street.

Jaeson Allen Min Schmidt - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Just want to start with the EPS guidance for March. Are you not updating it because the situation remains too fluid? Or is it a situation where you still feel fine about that, I think, pro forma EPS range of \$0.02 to \$0.06?

Paul H. Pickle - *Lantronix, Inc. - President, CEO & Director*

We're not updating it because things are a bit dynamic. If we were to kind of look at various end markets, Asia is obviously pretty disrupted for us, EMEA is also soft, although that is where we're getting some of the expedites in terms of the video conferencing equipment. That's not going to affect this quarter. That's more of a next quarter artifact. In North America is kind of -- it's depressed, but still kind of trudging along at a decent pace. So I think at this point, we're a little bit uncertain in terms of exactly how the mix is going to come down and are not updating the guidance, but are maintaining that we are driving towards non-GAAP profitability. So that hopefully gives you a little bit of color on it.

Jaeson Allen Min Schmidt - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

No, I appreciate that. That makes sense. And then, certainly, things have changed significantly since you guys reported December and gave that initial outlook, but just curious if you've seen any anecdotal evidence of situation bottoming in China over the last few weeks here?

Paul H. Pickle - *Lantronix, Inc. - President, CEO & Director*

So if I go through the list, we have partial output from several Chinese factories. Most of the issues that we have are associated with China factories. Honor Tone, for instance, is a new manufacturer for us that came with the intrinsic acquisition. That one still continues to struggle just given the geographic location. They're still sub-50% in terms of operational. So anything -- any factory that you look at and contract manufacturer that you look at in China is going to be anywhere from 25%, 30% to 70% output kind of number. Our -- if we look at our Lantronix classic business, that

transitioned some time ago to Malaysia -- in Thailand. Those factories are up and running. So while they were delayed, we are forecasted to catch up. So it's a little bit fluid, but most of the disruption still is associated with China. And then if we look at components, anything that's China-based is still -- we run the gamut from slightly behind to being caught up by the end of the quarter. So it's still a little bit difficult to tell.

Jaeson Allen Min Schmidt - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. And the last one for me, and I'll jump back in the queue. Just curious if you could provide some color on what you think inventory is at the distributors today?

Paul H. Pickle - *Lantronix, Inc. - President, CEO & Director*

So we've not seen any substantial pullback from our [distributors]. So I don't expect a doubling effect, but at this juncture, we don't have the inventory numbers in for the current month. So we'll have to provide a little bit more color on that when we update everybody on the March quarter.

Operator

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

Paul H. Pickle - *Lantronix, Inc. - President, CEO & Director*

Thank you for joining us today, and we look forward to connecting with you again in May, and hopefully, with a little bit broader outlook. Thank you.

Operator

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

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