

VLN Earnings Call Transcript

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Quarter: 3

Operator: Good morning. My name is Karen, and I will be your conference operator today. At this time, I would like to welcome everyone to Valens Semiconductor's Third Quarter 2025 Earnings Conference Call and Webcast. All participant lines have been placed in a listen-only mode. Opening remarks by Valens Semiconductor Management. I will now turn the call over to Michal Ben Ari, Investor Relations for Valens Semiconductor. Please go ahead.

Michal Ben Ari: Thank you, and welcome, everyone, to Valens Semiconductor's Third Quarter 2025 Earnings Call. With me today are Gideon Ben-Zvi, Chief Executive Officer, and Guy Nathanzon, Chief Financial Officer. Earlier today, we issued a press release that is available on the Investor Relations section of our website under investors.valens.com. As a reminder, today's earnings call may include forward-looking statements and projections which do not guarantee future events or performance. These statements are subject to the Safe Harbor language in today's press release. Please refer to our annual report on Form 20-F filed with the SEC on February 26, 2025, for a discussion of the factors that could cause actual results to differ materially from those expressed or implied. We do not undertake any duty to revise or update such statements to reflect new information, subsequent events, or changes in strategy. We will be discussing certain non-GAAP measures on this call, which we believe are relevant in assessing the financial performance of the business, and you can find reconciliations of these metrics within our earnings release. With that, I will now turn the call over to Gideon.

Gideon Ben-Zvi: Thank you, Michal. Hello, everyone, and thank you for joining us. Before we begin with the rundown of our Q3 highlights, I would like to take a moment to acknowledge our leadership transition. As you know, this will be my last earnings call. As of tomorrow, Johann Stalinger will assume the role of Chief Executive Officer of Valens Semiconductor. Johann brings over 25 years of leadership experience in global IT companies and a track record of driving growth, innovation, and successful exits. As I step down from the CEO position, I will continue to be a Board member of the company. And now, let's discuss the business highlights. We are pleased to report a strong third quarter well above our initial expectations. We delivered revenues of \$17.3 million, significantly above our guidance range of \$15.1 million to \$15.6 million, as customer demand exceeded expectations in the ProEV market, marking the sixth consecutive quarter of growth for our company. Looking ahead to Q4 2025, we expect revenue to be in the range of \$18.2 million to \$18.9 million, setting us up for a seventh straight quarter of growth. For the full year of 2025, we expect revenue to be in the range of \$69.4 million to \$70.1 million. GAAP gross margin for Q3 2025 came in at 63%, better than the guidance, and adjusted EBITDA loss was \$4.3 million, above the guidance range. I'll begin our quarterly discussion with a review of our cross-industry business unit, which covers Industrial Machine Vision, medical, and the traditional professional audio-video, where our customers have reported better-than-expected demands. In ProEV, we are succeeding with our strategy of first targeting high-end products and allowing the rest of the market to follow. Adoption of the VF3000 chipset continued to grow, underscoring the demand for long-range distribution of uncompressed 4K video. The VF3000 remains the only solution available that delivers HDMI 2.0, high-fidelity audio, Ethernet, USB 2.0, control signals, and power over a single category cable at distances up to 100 meters. One notable trend in Q3 was the growing adoption of matrix solutions. These are increasingly being used to deliver high-resolution video in command and control centers, museums, and live events. Several market

leaders have launched state-of-the-art matrix products powered by the VF3000, including Extron's DTP3 Crosspoint, Kramer's MTX3, and Atlona's 4K HDR switcher. We also had exciting news from the field regarding our USB 3 extension solution, the VX6320. A major player that had previously been designing with a competing technology has now engaged us in four new designs based on the VX6320. We expect continued strong interest in this product moving forward. Staying with the cross-industry business unit, let's turn to Industrial Machine Vision. In July, we announced our VA7000 chipset, the series originally developed for automotive, is powering the market's first end-to-end camera-to-processor, MiPi A5 platform from T3 embedded. This solution provides the industry's first product-ready path to implementing the standard in AI-based embedded vision systems. We are observing strong momentum for MiPi A5 from within the ecosystem. Companies are impressed by A5's superior performance. Next quarter, we're excited to showcase the MiPi offering alongside customers and partners at ITE in Yokohama, Japan, an important region for Industrial Vision Systems. We continue to expect Industrial Machine Vision to become an increasingly meaningful part of our revenue mix in the coming quarters, with initial revenue anticipated by the end of 2026 and strong growth potential in the years that follow. I would like to conclude the discussion of our cross-industry business unit with an update on the notable progress we are making in medical endoscopies. You have heard us speaking about disposable endoscopy several times; it is time to be explicit. Recently, we announced some exciting news. Three OEMs launched the first V7000-based endoscopies on the market, including the first disposable colonoscopy with 4K video resolution. As a reminder, the VA7000 chipset is the first on the market with built-in electrosurgical noise cancellation. To explain how important this innovation is, I would like to cite the International Standard Governing safety and performance requirements for medical endoscopies. Quote, "The short interruption of illumination or image display shall not be considered unacceptable degradation for endoscopies equipment." That is to say, the official standard governing safety and endoscopy procedures allows for video loss. And the reason is simple: until now, there have not been endoscopies that could flawlessly handle electromagnetic interference while supporting the highest resolution sensors. Valens technology offers a solution for endoscopy vendors that provides a seamless video experience, and that's the main reason why we're seeing such strong market fit both for single-use and reusable medical endoscopies. In the medical world, there are two major trends: reducing the use of invasive surgeries and shifting toward single-use medical devices. Valens solution addresses both of these emerging needs by enabling high-resolution video transmission and allowing for surgical procedures to be performed without electromagnetic interference. We will be showcasing the medical offering next week at the medical trade show taking place in Düsseldorf, Germany, and we anticipate considerable interest driven by the growing momentum this solution is generating across the market. Our goal over the next year is to secure additional design wins and continue supporting existing ones, always with the aim of ramping into mass production starting in 2027 to 2028. This market represents a long-term growth opportunity. It's known for its high barrier to entry, but stickiness tends to be strong once you're in. Now, I would like to turn to the automotive industry. A reminder, our opportunity in automotive is dominated by the VA7000, which offers high bandwidth and best-in-class EMI immunity. It is the first chipset on the market to comply with the MiPi A5 standard for high-speed sensor connectivity. Late last year, we announced three design wins with leading European OEMs for this solution, gaining a strong foothold for A5 within the global OEM community. To drive A5 forward, ensure it is the key connectivity standard in the automotive industry, we collaborate with multiple silicon vendors, validating interoperability as the A5 solution comes to market. The impact was clear in Q3 as another A5 provider announced the standard for design win. This makes A5 the first automotive standard to secure design wins across more than one silicon vendor. Another important milestone for MiPi A5 came from Sony Semiconductor Solutions, which announced the upcoming release of the IMX828, the automotive industry's first image sensor with a built-in MiPi A5 interface. According to Sony, the camera brings a number of benefits to OEMs and Tier 1s, including reduced cost, compact bolt size, suppressed heat generation, reduced camera module power consumption, and improved resistance to error due to external noise. Having an integrated product is a pivotal milestone for any standard, and this is why Valens partnered with Sony from the early stages of this product development, ensuring that the camera met the A5 specification and was interoperable with our VA7000 chipset. When Sony markets this chip to its customers and

partners, it is highly likely that the Valens VA7000 will be involved on the receive side. MiPi A5 also received another major endorsement by a leading player in the automotive industry, Samsung Electronics. We were proud to announce strong market interest from global OEMs. In addition, last quarter, Samsung is supporting the MiPi A5 standard, reflecting we will fabricate our new generation of A5 solution at Samsung Foundry. Here is what Samsung Corporate VP, Foundry Technology Planning stated about MiPi A5: "OEMs are demanding a next-generation connectivity solution that can ferry them to higher levels of ADAS and autonomous driving. And MiPi A5 offers the key technical breakthroughs necessary to achieve this." It's clear that the momentum around MiPi A5 is building all around the world. We continue to be engaged in several evaluation processes with multiple OEMs, each at different stages of development. This sustained activity highlights the growing strengths of the MiPi A5 ecosystem and its acceptance as an emerging industry standard. We remain confident in our leadership position in MiPi A5, supported by three design wins with leading European OEMs and a strong partnership with Mobileye. With that, Guy, please go ahead and discuss our financial performance in more detail.

Guy Nathanzon: Thank you, Gideon. I'll start with our third-quarter results and then provide our outlook for the fourth quarter and full year of 2025. We generated quarterly revenue of \$17.3 million, exceeding our guidance range of \$15.1 million to \$15.6 million. This compares to revenues of \$17.1 million in Q2 2025 and \$16 million in Q3 2024. Cross-Industry Business (CIB) accounted for \$13.2 million or approximately 75% of total revenues, while automotive contributed \$4.1 million or approximately 25% of total revenues this quarter. This compares to Q2 2025 revenues of \$12.8 million from CIB and \$4.3 million from automotive, which represented 75% and 25% of total revenues, respectively. In Q3 2024, revenues from CIB were \$9.4 million, and \$6.6 million were from automotive, or approximately 60% and 40% of total revenues, respectively. Q3 2025 gross profit was \$10.9 million compared to \$10.8 million in Q2 2025 and compared to \$9 million in Q3 2024. Q3 2025 gross margin was 63%, compared to our guidance range of 58% to 60%. This compares to a Q2 2025 gross margin of 63% and 56.4% in Q3 2024. On a segment basis, Q3 2025 gross margin for the CIB was 69.1%, and gross margin from automotive was 43.2%. This compares to Q2 2025 gross margin of 67.8% and 50.5%, respectively, and for Q3 2024 gross margin of 70.3% and 36.8%, respectively. The increase in gross margin of the CIB compared to Q2 2025 was due to a change in product mix. The decrease in Q3 2025 in automotive gross margin compared to Q2 2025 was due to product versions mix and certain operational expenses related to manufacturing line transition. Non-GAAP gross margin in Q3 was strong at 66.7%, which compares to 67.2% in Q2 2025 and 60.7% in Q3 2024. Operating expenses in Q3 2025 totaled \$19 million compared to \$18.2 million in Q2 2025 and \$21.3 million in Q3 2024. Research and development expenses in Q3 totaled \$10.8 million compared to \$10.2 million in Q2 2025 and \$10.3 million in Q3 2024. SG&A; expenses in Q3 were \$7.4 million compared to \$8.9 million in Q2 2025 and \$10.7 million in Q3 2024. The decrease compared to Q2 2025 is mainly due to income from a certain batch production incident in the amount of \$1.5 million recognized for insurance claim payments. Change in annual liability in Q3 was an expense of \$700,000 compared to an income of \$800,000 in Q2 2025 and an expense of \$300,000 in Q3 2024. The change compared to Q2 2025 is mainly due to reassessment of the earnout amount to be paid to the Acronym's shareholders. GAAP net loss in Q3 2025 was \$7.3 million compared to a net loss of \$7.2 million in Q2 2025 and a net loss of \$10.4 million in Q3 2024. Adjusted EBITDA in Q3 2025 was a loss of \$4.3 million, better than the guidance range of a loss between \$7.4 million to \$6.8 million. This compares to an adjusted EBITDA loss of \$4 million in Q2 2025 and an adjusted EBITDA loss of \$5.1 million in Q3 2024. GAAP loss per share for Q3 was \$0.07 compared to a GAAP loss per share of \$0.07 for Q2 2025 and a GAAP loss per share of \$0.10 for Q3 2024. Non-GAAP loss per share in Q3 2025 was \$0.04 compared to a loss per share of \$0.04 in Q2 2025 and a loss per share of \$0.03 in Q3 2024. The difference between GAAP and non-GAAP loss per share was mainly due to stock-based compensation, change in earnout liability, depreciation and amortization expenses, and certain batch production incident income. Turning to the balance sheet, we ended Q3 2025 with cash, cash equivalents, and short-term deposits totaling \$93.5 million and no debt. This compares to \$102.7 million at the end of Q2 2025 and \$131 million at the end of 2024. During Q3 2025, the company allocated \$3.6 million for the share repurchase program, totaling \$23.4 million between January 1, 2025, and September 30, 2025. Currently, there is no active share repurchase

program. Our working capital at the end of Q3 2025 was \$98.9 million compared to \$106 million at the end of Q2 2025 and \$133.6 million at the end of 2024. Our inventory as of September 30, 2025, was \$11 million, a slight decrease from \$11.5 million on June 30, 2025, and down from \$11.2 million on December 31, 2024. Now I would like to provide our guidance for the fourth quarter and full year of 2025. We expect Q4 2025 revenue to be in the range of \$18.2 million to \$18.9 million, marking the seventh consecutive quarter of growth in revenues. We expect gross margins for Q4 2025 to be in the range of 58% to 60%. And we expect adjusted EBITDA loss in Q4 2025 to be in the range of \$4.6 million to \$4.2 million loss. For the full year 2025, we expect revenue to be in the range of \$69.4 million to \$70.1 million. The midpoint reflects growth of approximately 20% compared to the annual revenue of 2024. I'll now turn the call back to Gideon for his closing remarks before opening the call for Q&A.;

Gideon Ben-Zvi: Thank you, Guy. Across each of our target markets, Valens Semiconductor is well-positioned for growth, supported by our cutting-edge technology and robust balance sheet. We remain focused on executing our long-term strategy and advancing on our path towards profitability. On a personal note, I would like to say that it has been a privilege to lead the Valens team over the last 5.5 years. I'm confident that in his position as the next CEO of Valens, Johann will accelerate Valens' growth and strengthen its position as a leader in high-performance connectivity across industries. With that, we will now open the call to answer your questions. Operator?

Operator: Thank you, ladies and gentlemen. At this time, we will begin the question and answer session. If you wish to cancel your request, please press 2. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Please ask your question in a loud and clear voice. Your questions will be called in the order they are received. Please stand by while we poll for your questions. The first question is from Quinn Bolton. Go ahead.

Neil Anthony Young: It's Neil Young on for Quinn Bolton. Thanks for letting me ask a question. So I wanted to ask about the gross margin across the two businesses.

Guy Nathanson: Specifically within automotive, which dropped sequentially. So last quarter, you talked about the optimization of product costs within automotive. This quarter, it looks like the sequential drop was due to product versions mix and certain operational expenses related to line transition. I was wondering if you could give a little more detail on what that is. Is this a one-time event? Should we expect this to carry over in future quarters? And then maybe for Q4, kind of walk us through the puts and takes in gross margin for the guide. It seems like it came in a little bit softer than I would have thought. Thanks.

Guy Nathanson: Sure. Hi, Quinn. So we truly believe that this was like a kind of a one-time event related to the mix of different versions of the product during the quarter and related to a one-time expense related to a transition of a certain manufacturing line. And we believe that in the next quarter, that should be improved again.

Neil Anthony Young: Okay. So it should maybe return to what it was in Q2? With an auto? Or a smaller step up?

Guy Nathanson: We still I'll be a little bit cautious here. And I will try to avoid providing an exact answer. But it should be improved. It's still early to say what would be the pace of the improvement.

Neil Anthony Young: Okay. Thanks. That's very helpful. And then the cross-industry business revenue came in, definitely above what I would have expected. So I know earlier in the year or last quarter when you guys were talking about your guide, there were some concerns around the impact of tariffs. Was that not as bad as previously feared? Sort of what's driving the strength in CIB or more specifically in Pro AV? And should we expect it to grow at a higher rate sequentially than auto in Q4? Thanks.

Gideon Ben-Zvi: Hi. Thank you, Quentin. Thank you for the question. We see that the tariff influence is becoming milder, and this is the reason that companies are less reluctant to make new orders, and they know that they can ship what they buy. It's not yet the situation that the market is clear and the atmosphere is clear. It's improving. And as we all read the same press, it's changing daily. But the whole atmosphere around tariffs is far more relaxed, not relaxed to the level before it all started.

Neil Anthony Young: Great. Thank you.

Operator: The next question is from Suji Desilva from Roth Capital.

Suji Desilva: Hi, Gideon. Guy, best of luck in the transition, Johann, best of luck in the new role. So team, the ProAV upside in the quarter, can you give some color on where that is coming from and how

sustainable that is?

Gideon Ben-Zvi: Sure. ProAV is a very big part of the CIB. And ProAV is mainly much, and there's conference rooms and projectors. It's all one mix. And it comes from all of them. It doesn't come particularly from one. I might say that one niche which is starting to become bigger is the conference room camera. This is a subsegment that might have an entry is this one. But other than that, it's the stuff we know for years, and the market is getting back to what it used to be, and this is the ProAV recovery. I don't think I have a lot more color to put than that, but I believe that this covers where the ProAV is back to.

Suji Desilva: Okay. Alright. Thanks, Gideon. My other question, maybe a bigger picture question. Can you talk about the factors that are pacing or gating MiPi broader MiPi adoption, you know, maybe across non-auto and auto just to understand, you know, what you think is kind of left in '25 and '26 to help kind of accelerate that adoption?

Gideon Ben-Zvi: You know, MiPi A5 is, I repetitively say, a company like Valens cannot win in points. We can win in knockout. MiPi A5 gives the advantages, the advantages are very blunt. This is correct for automotive and for medical and for industrial. Where people have serious influence of electromagnetic, when electromagnetic is strong and changes the whole ecosystem, this is where we are. And this is part of what the new world has more cameras, it has more resolution, more bits per pixel, more, and they require more bandwidth, and these bandwidth makes the whole system to be more fragile. And when it's more fragile, MiPi A5 is the solution. And that's exactly where we are, and this is the reason for those wins. I am not sure I did answer exactly your question. So if it's not, don't hesitate to elaborate.

Suji Desilva: No, Gideon, that was the color I was looking for. I mean, there is sort of up to date. It sounds like bandwidth and higher resolution video is one of the catalysts that's happening, secularly in the market. Right? Just understand.

Suji Desilva: Great. Alright. Thanks, guys.

Operator: The next question is from Dave Storms of Palmgate. Please go ahead.

Dave Storms: Good morning, and thank you for taking my questions. Just wanted to start with the gross profit margin guide in Q4. Year-to-date gross profit margin is tracking around 63%. And you're obviously guiding between 58% to 60%. Is this an expectation that the mix is going to change? Is this typical seasonality? Is this being judicious in the face of the macro environment? Any color here would be great.

Guy Nathanson: Sure. So in the beginning of the quarter, we're trying to estimate the next quarter results based on product mix. And the combination of the revenue drivers. And the result is what we've provided as the guidance.

Dave Storms: Understood. Appreciate that. And then just wanted to turn to the medical segment. Great to see if they had the three product launches. Curious as to what the pacing may be around for further product launches and what the logistics look like for expansion there.

Gideon Ben-Zvi: Okay. I believe that both of us are not medical doctors, but I try to get this both to the same point of view of a medical doctor. There are stages when the doctor penetrates with the camera in order to see what is in, and then he started to solder or to burn or to do anything. At this time, all the frames are lost. And he's blind, and he uses the memory he had before to see the figures correctly. And the reason for that is because if there is no any resistance of electromagnetic, there is no EMC. The EMI is celebrating, the influence is very high. What we do enable is the continuity of the surgery without losing frames. And this is one of the reasons that it is adopted in the industry. And the other reason is the pressure to move to a single-use endoscopy. This reason is originated by the tendency that's like, is it same as minimal invasive surgery responsible for maybe more than fifty percent of the infections in hospitals. And both the try to move from single-use endoscopy in one end and to have a more resilient system on the other hand and the result third reason, which I'll mention in the second, drive to look for solutions that have immunity against electromagnetic, the doctor would not have lost frames and the cost will be cheaper and enable single-use endoscopy. The third is a little bit more abstract, I'll try to explain it over the phone. Is the distance between the lens and sensor. When they are remote, the surgery sees the what's inside a rebutting like through a stroke. When they are connected, it opens up so we can see a larger picture. And this is a third motivation for why to move from traditional endoscopy

to this new endoscopy that enables both a bigger picture, both cheaper and electromagnetic resilience. So the doctor can do whatever he wants without losing frames.

Dave Storms: That's great color there. Thank you.

Operator: I repeat, if you have a question, please press 1. There are no further questions at this time.

Mr. Ben-Zvi, would you like to make your concluding statement?

Gideon Ben-Zvi: Yes, thank you. I would like to thank you all for joining us today for our 2025 earnings call and for your continued support and interest in Valens Semiconductor. I hope to meet you again in our next earnings call. Goodbye.

Operator: Thank you. This concludes the Valens Semiconductor conference call. Thank you for your participation. You may go ahead and disconnect.