

Q3 2024 MPS Earnings Webinar

Monolithic Power Systems, Inc. (NASDAQ:MPWR)
Q3 2024 Earnings Conference Call
October 30, 2024 5:00 PM ET

Company Participants:

Michael Hsing - CEO and Founder

Bernie Blegen - EVP and CFO

Tony Balow - VP of Finance

Genevieve Cunningham - Senior Manager, Marketing Communications

Analysts:

Joshua Buchalter - *Cowen*

Rick Schafer - *Oppenheimer*

William Stein - *Truist*

Quinn Bolton - *Needham*

Chris Caso - *Wolfe*

Tore Svanberg - *Stifel*

Ross Seymore - *Deutsche Bank*

Genevieve Cunningham

Welcome, everyone, to the MPS Third Quarter 2024 Earnings Webinar. My name is Genevieve Cunningham and I will be the moderator for this webinar. Joining me today are Michael Hsing, CEO and Founder of MPS; Bernie Blegen, EVP and CFO; and Tony Balow, Vice President of Finance.

Earlier today, along with our earnings announcement, MPS released a written commentary on the results of our operations. Both of these documents can be found on our website.

Before we begin, I would like to remind everyone, that in the course of today's presentation, we may make forward-looking statements and projections within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainty. Risks, uncertainties, and other factors that could cause actual results to differ from these forward-looking statements are identified in the Safe Harbor statements contained in the Q3 earnings release and in our SEC filings, including our Form 10-K, which can be found on our website. Our statements are made as of today and we assume no obligation to update this information.

Now I'd like to turn the call over to Bernie Blegen.

Bernie Blegen

Thanks, Gen. Good afternoon, and welcome to our Q3 '24 earnings call. MPS achieved record quarterly revenue of \$620.1 million, 22% higher than revenue in the second quarter of 2024 and 30% higher than revenue in the third quarter of 2023.

Our performance during the quarter reflected the strength of our diversified market strategy as we experienced improved ordering trends across most end markets and additionally benefited from initial revenue ramps associated with design wins secured in prior years.

Let me call out a few highlights:

- Q3 2024 automotive revenue was up 28% sequentially with improvements in infotainment, lighting, ADAS, and body controls.
- Communication revenue was up 65% from the prior quarter, reflecting new product ramps for Wi-Fi, optical, networking, and router solutions.
- Storage and Compute revenue was up 25% sequentially on the strength of demand for DDR5 and SSD memory and notebooks. MPS continues to focus on innovation, solving our customers' most challenging problems, and maintaining the highest level of quality.

In addition, we continue to expand and diversify our global supply chain, which will allow us to capture future growth, maintain supply chain stability, and swiftly adapt to market changes as they occur. Our proven long-term growth strategy remains intact as we continue our transformation from being a chip-only semiconductor supplier to a full-service silicon-based solutions provider.

I'll now open the webinar up for questions.

Genevieve Cunningham

Thank you, Bernie. Analysts, I would now like to begin our Q&A session. Our first question is from Rick Schafer of Oppenheimer. Rick, your line is now open.

Rick Schafer

Thanks and congrats to you guys. I guess I've got a two-part question if I could. The first is on enterprise data. It looked like it was down about 15% sequentially. I don't know if you could give some color on that. Is that one-time in nature? Or does that reflect a more sustained shift in that segment as we look into 4Q and then into '25? And then my second part of my question, I mean, it looked like auto, I knew you listed a few of them Bernie, automotive, industrial comms, consumer all look like they were up pretty materially sequentially. So is that -- how would you characterize those segments, which have sort of been lagging the last few quarters? Do you feel like those have made the turn?

Bernie Blegen

Sure, Rick. This is Bernie. Let me start with the enterprise data. Sequentially, we were down about 1.5% from Q2. And that a couple of things that we've talked about. One is that, we don't control our customers' ordering patterns. So as it relates to the current quarter, we did see a different ordering trend than we'd observed in each of the past six quarters. And then as far as looking ahead, we've been very open about the fact that as far as supply chain security for our customers, that's going to require a second or third competitor to introduce -- be introduced on the share. And so there's a lot of issues here that we've been talking about and that we're managing. But one very important point is that MPS's strength is in the diversity and we don't try to call out a particular end market's results. We try to deliver the company in total. And that's sort of a short-term view, but Michael may have a couple of comments on longer-term view.

Michael Hsing

Yeah. You probably everybody knows that if you look at the transcript from the last year, we talk about it. The market is big and the market is growing. Well the AI requirements is growing. And so the customers initially will take the -- always take the best solutions and to fulfill their needs. And the best solutions and also the speed of the development service, as you, as Bernie said earlier. And that's why we occupied as a pretty large shares, okay? And I mean, last year, we said that, okay, this market is too big and MPS will be always have a best solutions in these applications. And we will talk -- we also talk about in a -- the market is bigger, there will be a second or third and fourth supply to join this segment. And okay and this is the -- and when would have happen? And we don't know, okay. It happened in the last couple of quarters and they gave me in the next years. What we see that, again, the market is growing very fast. We have other ones like SOC side of market segment and like it hasn't really ramped up yet or started ramping. And the other ones like -- other hyperscale like company -- cloud computing companies and their own SOCs and their own TPUs, they call it the tensor processes system. And that those one is our -- still small. We're ramping in the next few quarters, okay? And as Bernie said that, MPS in the past, we always emphasized diversity and we will not be known to be a AI power supply company.

Bernie Blegen

And then, Rick, I think you had a question as far as automotive and whether or not the step up that we observed from Q2 to Q3 was more of a broader trend line or if it was a one-time event. And this we believe is a step up where a lot of design wins have been waiting in the pipeline for the right opportunity. And so we do believe that specific to us, not a discussion about the broader market, but specific to us that the number of product ramps are expected to come into the next -- come into the stream in the next two or three quarters.

Michael Hsing

Well, again, okay, as we -- as we said many, many years ago, there's a lot of new design wins. And when the ramp will take off, we don't know. It will be plus minus a year or so. Do we care? We don't, okay? And then now all these greenfield products start to rejuvenate and that's what you see in the revenue to date.

Tony Balow

And maybe one more comment just for Rick is that, traditionally, we've been talking about strength in ADAS, but what you heard Bernie talk about was, we saw that strength in automotive across kind of all the segments, including infotainment, body controls, really a sign of those sockets that we had won previously now start generating revenue. So it's more broad-based within automotive than maybe we talked about previously.

Rick Schafer

Thanks for all that color, you guys. And maybe, right on that point on auto specifically. I realize that this is a broad-based pickup and it's some place basically design win driven as all things are with you guys. But I'm curious, specific, I mean, NVIDIA did believe it did really well the last year or two with drive, Warren, and I know you guys do power there. So I didn't know if you could talk specifically about China auto and what content trends look like for you guys there and maybe give a sense of how big China auto is now as sort of a portion of your overall auto segment. Thanks a lot.

Michael Hsing

Well, China is again, EV business is booming. And now the tapered off a little bit and looks like it will -- booming again. And we're going in the right direction again, okay. And there's a lot of requirements. And the infotainment and the new type of infotainment and also the ADAS, okay. It's widely adopted in China. And so that's what we see a bigger portion of it is ramping from China. And also we see it in the -- and other than ADAS, okay, we see a lot of other products and grow -- will grow in -- from Germany -- in Germany and in the US.

Rick Schafer

Thank you, guys.

Genevieve Cunningham

Our next question is from Tore Svanberg of Stifel. Tore, your line is now open.

Tore Svanberg

Yes, thank you, and congratulations on the record revenue. I wanted to follow up on enterprise data. Obviously, you had two very strong quarters, first half of the year, it took a breather this quarter. But how should we think about that business into the December quarter? And Michael, I know you talked about many new product ramps in 2025, but just sort of specifically for Q4, how should we expect that business to perform?

Michael Hsing

As far as I know, Q4, we don't lose any shares and probably it's going in the -- it was the same as the forecast. Okay, we don't, okay, we don't -- we can't really tell. And this forecast was given us to us in a few quarters ago. And we just fulfill that, fulfill the demand. So we'll have a -- that's what we built for me -- in the last couple of quarters.

Bernie Blegen

Yeah. And I think as we look to the outlook and the guidance that we provided, really enterprise data was somewhere in the plus low-single-digits. So again, our customers ordering patterns are really what drives the performance there.

Tore Svanberg

No, that's very fair. And the one big surprise to me this quarter was communications. I think it was your strongest growth segment this quarter. You highlighted Wi-Fi optical networking. Could you maybe just give us a little bit more color what's going on there? I mean, it does sound like you have some new segments there that you are penetrating, especially on the optical side.

Michael Hsing

Well, the opticals, okay, is a data converter, data communications, within the data centers, okay, within the racks, okay. And that's a portion of it. But that's not all of them, okay. Other one is the new Wi-Fi format and okay start to ramping up. That's the MPS will have a lot of reference designs and that's what we see. It's across the continent. All these projects turning to a revenue now.

Bernie Blegen

So I think the outlook for, again MPS specifically remains very solid. Generally, after you have a big initial stocking in the quarter with a new revenue ramp, it tends to tail off for a quarter, but we see sustainable growth in communications through the first half of '25.

Tore Svanberg

Great. Thank you for the color. I'll go back in line.

Genevieve Cunningham

Our next question is from Joshua Buchalter of Cowen. Joshua, your line is now open.

Joshua Buchalter

Hey, guys. Thank you for taking my question. I think in response to Rick's question, you mentioned two factors that sort of drove the flattening out of enterprise data being order patterns and second sourcing. I guess could you -- or could you maybe rank order which one of those had the bigger impact near-term? And in particular, as we think about your customers diversifying their suppliers, are you seeing this more on AI accelerator platforms that are already in the market or is this tied to the newer platforms that are currently ramping? Thank you.

Bernie Blegen

So I think Michael offered that in Q4, we're not expecting Q3 and Q4 to see share position change. So that was really just trying to acknowledge that is a function of being the market leader in the AI. And then over time, as we see a layering of all these new AI opportunities, Michael referred to the TPUs, which will probably begin to ship late.

Michael Hsing

I don't know if the TPU is what I remember is the TPU maybe is -- maybe Google's name, a trademark name. To me it's a tensor processor.

Bernie Blegen

Tensor processor.

Michael Hsing

Yeah it's all -- that's what we mean. And it's all really -- some of you in the call referred this as SOCs. And we have many design, we engage with many of our customers in many years ago. And those products is actually we see start to ramp in the last quarter.

Bernie Blegen

Yeah. Okay.

Joshua Buchalter

Thank you for the color. And I realize you've got content in multiple different sockets on many of these accelerator cards. And so my question is going to try to oversimplify it. But how should we think about, as we think about some of these new AI accelerator platforms, your content opportunity may be in relationship to power draw of the actual processors or any other helpful Rules of Thumbs you can give us as we try to fine-tune our models in the next year. Thank you.

Michael Hsing

Well, you said, if you believe so like I hope and -- if you believe as we believe, our products, our solution is the best and the most power efficient and the market is bigger. And that portion of our revenue will grow. The rest of the stuff, I don't get -- I don't -- we don't care. Just let it happen. Let the numbers speak itself.

Joshua Buchalter

Thanks, guys.

Genevieve Cunningham

Our next question is from Chris Caso of Wolfe. Chris, your line is now open.

Chris Caso

Yes. Thank you. Good evening. I guess, the first question, as we look at your guidance for the December quarter, not a lot changing on a sequential basis. I think you mentioned that the enterprise data will be up low-single-digits sequentially in December. Anything else that you would call out as kind of growing or shrinking different from the average in December? And then following that, given that enterprise data has grown as a percentage of revenue, does that affect seasonality as you look into the March quarter? Is there anything we should be thinking about with respect to the different customer mix as we go into March?

Bernie Blegen

Sure. If you're looking at Q4 by end market, it's interesting you have some seasonality, but currently, we don't believe that any of the end markets are going to change by more than plus or minus mid-single-digits. So it's a very, very narrow range that we're talking about there. And when we look out into the momentum carried into '25, obviously, we don't guide beyond Q4, but it has been seasonally down quarter for a lot of companies, but I don't have a view on what that's going to look like currently.

Chris Caso

Okay. Thank you.

Michael Hsing

We don't, especially, we don't really care. So as long as we have a design, we design and we are in the project with our customers. And when those ramps start to happen, our customer -- they don't have a clear view. And let those products -- let take its own calls, let the numbers speak itself.

Chris Caso

Okay. As a follow-up, as you look into next year, the other part of your enterprise data business on traditional server, that's an area that you guys have been favorable on for a while, but I guess, you've been waiting for the market to improve. We heard some a little better news from at least one of the CPU vendors this week. Can you give some view of kind of the share content, what you're seeing in that part of the enterprise data business as you go into 2025?

Michael Hsing

Yes. It's a good question. Yes, we do see it, and the volumes started picking up. And as we said many quarters -- many years ago and this was -- this rapid sapphire of something. And the VR 14, we will pick up the shares in the 13.5, by serendipity of a shortage and we prove we're significant suppliers in that. And VR 14 and what will be a significant, we're, one of the big supply in -- in this rapid sapphire growth.

Tony Balow

And maybe just beyond just the enterprise data segment itself, as you see those ramp, right, they'll pull through other solutions like DDR5 memory and continue to be a tailwind in some of the other segments as well.

Chris Caso

Thank you.

Genevieve Cunningham

Our next question is from William Stein of Truist. William, your line is now open.

William Stein

Great. Thanks for taking my question. Michael, I know you often are involved in some interesting sort of sometimes idiosyncratic growth drivers for the company. I know for some time, you were famously tinkering in the automotive end market and sort of searching for more effective solutions than what was

available in the market. And I understand your focus has been perhaps more in the home automation market more recently. And I wonder if you can talk to us about, some things that might be on the come in the next couple of years from the company in that end market.

Michael Hsing

Yes. As you know, at MPS have a few thousands of our products. So we're in lighting, we're in -- we are in a thermostat and we are in shades controls and we're in all these fan motors and security, the window actuators, and the window and door opening actuators. And we're also making MCU now. And those MCU can be a brain of everything while we're just putting the one box and we're putting one box with the software. So and we sell as a kit. Everything is -- everything including it. It's the key is the ease of use. I think this will change the market segment for building automations.

William Stein

That's helpful. Maybe as a follow-up, you mentioned, your MCUs now. There's another category that you entered relatively recently. You're not really known for it as much, but data converters. I know I think you hired a team in that area and you had some very good results for initial product, maybe in the medical end market. Can you talk about traction in that category, please?

Michael Hsing

We are growing in that segment. The revenue is still small. As you know, these are -- these are design cycles is very long. And also the product life cycles 10, 20 years. I mean they will last forever. And those segments win-win some in some industrial side as well as the medical side. And we have -- as we have more product rolling out as a matter of fact in the next couple of quarters some family of standard product. We will gain more market shares in this segment.

William Stein

Great. Thank you.

Michael Hsing

Okay.

Operator

Our next question is from Ross Seymore of Deutsche Bank. Ross, your line is now open.

Ross Seymore

Hi, guys. Thanks for letting me ask a questions. I want to go back to the non-enterprise data side, I think by my math, it was up about 35%, 36% sequentially. I know, you guys have a ton of design wins and you're kind of just waiting for them to ramp, but the magnitude of that ramp, the diversity of it, and just the commentary that bookings are improving seems to be at odds with the very muted recovery that so many of the peers are seeing. So could you just explain, do you think cyclical conditions are getting better or is this a very Monolithic power-specific dynamic? Any sort of color on that.

Bernie Blegen

I think, Ross, we're experiencing a little bit of both. Is somebody?

Michael Hsing

Hans, can you mute it? Yeah. Okay. You can mute it. Yeah. Okay.

Bernie Blegen

So, Ross, you're asking the difference between growth specific to us and what we're seeing in the market. And in the current quarter or let me go back, the previous quarter, we actually saw improvements in our ordering patterns. But they're not a consistent trend. But what we saw in the current quarter was a lot of new revenue opportunities that we received from design wins secured in previous years that were coming to market now, particularly in the communications, particularly in automotive. And then also we saw an improvement in the overall profile of the memory market.

Michael Hsing

Well, as a matter of fact, we see all across the board.

Bernie Blegen

Yeah.

Michael Hsing

Other than AI. Other than AI power and all across the board.

Ross Seymore

And how are you -- I guess as my follow-up, whether it's in the AI side or otherwise, a lot of supply has been added to the market over the last couple of years to address shortages, et cetera. And so a fear people have is that pricing pressure is going to ensue, whether it's more competition in AI power that

you mentioned earlier or just a more aggregate holistic increase in pricing pressure. Are you guys seeing any evidence of that?

Michael Hsing

Well, our competitors also some of the Chinese suppliers and they always want to lower the price to get in the market to get in the socket. That's not the game what we played. And so a lot of the -- our customers they don't change those socket. They don't change the -- our products can swap in -- and quickly. And those kind of things is in a -- and also to the way we emphasize diversity. So not in one segment. It has a lot of shipments and a lot of volumes going into the one particular applications. And for example like AI and we will provide the value. Our value is the highest performance. And all the other products let our customers choose and so the history is telling us, our history short, and as we -- as long as we operate in the same principles and the revenue will keep growing and growing the same way. And we see the next couple of years, especially next year, we see -- all these products will grow. And now this is -- which is to see the first sign of it, and all these design win turning into the revenue now.

Ross Seymore

Thank you.

Genevieve Cunningham

Our next question is from Quinn Bolton of Needham. Quinn, your line is now open.

Quinn Bolton

Hey, guys. Thanks for taking my question. I guess, first to start off, I think it was for the first time ever in your June 10-Q, you guys disclosed a 10% plus customer. And I'm wondering, I know you haven't filed the Q yet, but if that's going to be an ongoing disclosure, would you be able to provide us if you had any 10% customers in the June, sorry, September quarter? And if so, what percent of revenue was that customer?

Bernie Blegen

So, Quinn, what you're referencing is basically revenue exposure by direct customer and indirect. And when the customer hits a certain threshold according to the SEC guidelines, we need to put a reference to that.

Michael Hsing

But we're never putting a name out there.

Bernie Blegen

No, no. We do not.

Michael Hsing

Yes, this time, we have -- still have a one customer is bigger than 10%.

Bernie Blegen

Yeah.

Michael Hsing

Bernie, you can check that numbers. Is that right? Only two customers and above 10%.

Quinn Bolton

Okay. And we'll get percentages in the Q.

Bernie Blegen

It's one or two.

Michael Hsing

Yeah, I think, it's one or two. You can check that. I believe it's one. Bernie you can check that. No, it's only one. Two will be very big. I don't -- I don't believe the numbers.

Bernie Blegen

We don't. We don't.

Michael Hsing

Yeah.

Quinn Bolton

Okay. The second question is, I know, you don't want to guide to 2025 yet.

Michael Hsing

Hold on a second. Tony, could you –

Bernie Blegen

Check that?

Michael Hsing

Yeah, could you check that, is that one or two? I think the second one is less than 4%.

Tony Balow

Yes, I'll check it. Give me 10 seconds, and I'll get back to you.

Michael Hsing

Yeah. Yeah. So we are, okay, this had to be on our record. And then let's make it clear. Go ahead.

Quinn Bolton

Yes. Maybe while we're waiting for Tony, my second question was, I know you're not going to sort of give a specific guidance out to 2025, but The Street is looking for continued pretty strong growth in the enterprise data segment. I know you've talked about lots of crosscurrents in terms of expecting some additional competition to enter that market, some pricing pressure at existing customers, but you also have the ASIC designs that start to ramp next year. The Street is kind of looking for that business to hit almost \$1.1 billion in revenue. And just wondering is that given your crystal ball, is that sort of a reasonable expectation? Do you think that we should be tempering expectations for that segment, given some of the cross-currents you've mentioned or do you want to just kind of keep it one quarter at a time?

Michael Hsing

Yes, I can tell very confident, confidently we will be, okay, let's say that. And when this market -- when this AI market turn into like a regular server market, MPS will be a significant player in that. And now this is not -- became a, what do you call it, reach to an equilibrium yet.

Bernie Blegen

Not a run rate.

Michael Hsing

No, yeah, this is still ramping up. And when this segment is ramping -- when you start to ramping, it's kind of lumpy. You don't see this thing, okay, you don't see -- you can't keep going forever like the first two -- since last year and the first -- in the first couple of this quarters like our first couple of quarter in this year. And next -- and so to answer your question for next year, clearly, so we have a lot more customers as I said earlier, that will start to ramping those designs will turn into -- those design will turn into revenues.

Tony Balow

Michael, just to circle back relative to disti, we'll call out two, for direct, we'll call out one.

Bernie Blegen

Okay. That's a direct customer, not a disti.

Tony Balow

So we'll call one direct. We'll call out multiple disti is higher than 10%.

Michael Hsing

Yeah, well, disti will never count, and because all the reporting we -- that's in the reporting, all the design creation, all the exposures for the end customer is only one. The next one is, I believe, is a less than -- is about definitely is below 5%.

Bernie Blegen

Yeah.

Quinn Bolton

Got it. Thank you, Michael. Thank you, Bernie.

Michael Hsing

Okay.

Genevieve Cunningham

Our next question is from Tore Svanberg of Stifel. Tore, your line is now open.

Tore Svanberg

Yes. Thank you. I had a similar question to Quinn, but thinking more about vertical power. So enterprise data this year more than \$700 million. I assume the contribution from vertical power is still quite low. And if that's the case, as the market does transition to vertical power, could we see this market base basically even accelerate over the next few years?

Michael Hsing

Absolutely. Not in next few years, next few quarters. Yes. We -- as we said, look, we are playing the power module market segments in -- since 2017. And all these technology, all these manufacturing capabilities and that will really benefit for these vertical power. And as speaking, now we are shipping those products in good volumes.

Tore Svanberg

Sounds good. Thank you.

Genevieve Cunningham

Our next question is from Ross Seymore of Deutsche Bank. Ross, your line is now open.

Ross Seymore

Hi, guys. Thanks for letting me get a little follow-up snuck in here. Inventory, I know Michael, you and I have laughed about that in many times like this in the past.

Michael Hsing

That's my favorite topic.

Ross Seymore

There you go.

Michael Hsing

Yeah.

Ross Seymore

In this instance, internal inventory came down by a lot days-wise. What did external channel do? How are you looking at that? Was some of that 35% sequential growth that I referred to in my initial question a little bit ago, inventory fill, or has the channel stayed lean?

Bernie Blegen

No, the channel stayed lean. In fact, our total days went down in the quarter.

Michael Hsing

Well, we want to -- this is not good. We want to build up. And as always, we build the inventory in the -- it's not synced with the market demand. And you see our -- Ross, okay, you're the expert of MPS inventory. If you checked like our inventory levels, it's the opposite of the market demand. And now the market demand for MPS now is very high. So the inventory is low and we don't think that we're going to reign to a shortage issue, but it's at the inventory level is at the uncomfortable level.

Ross Seymore

Got you. And I guess just to clarify, Bernie, when you said total inventory actually went down, you mean just total channel inventory days fell.

Bernie Blegen

Total channel inventory, yes.

Michael Hsing

Channel inventory is also low. yeah.

Ross Seymore

Got it. Okay. That's it. Thanks guys.

Genevieve Cunningham

This now concludes our Q&A session. I would now like to turn the webinar back over to Bernie.

Bernie Blegen

Thank you. I'd like to thank you all for joining us for this conference call and look forward to talking to you again in our fourth quarter conference call, which is likely to be in early February. Thank you. Have a nice day.