

Q2 2024 MPS Earnings Webinar

Monolithic Power Systems, Inc. (NASDAQ:MPWR)
Q2 2024 Earnings Conference Call
August 1, 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:

Matt Ramsay - *Cowen*

Dustin Fowler - *Oppenheimer*

William Stein - *Truist*

Quinn Bolton - *Needham*

Chris Caso - *Wolfe*

Tore Svanberg - *Stifel*

Genevieve Cunningham

Welcome everyone to the MPS Second 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, VP 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 risk 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 Q2 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 a big welcome to all of you. Let me open by saying MPS reported yet another record quarter with Q2, 2024 revenue of \$507.4 million, exceeding the high end of our guidance. Our strong revenue growth was attributed to three factors, increased demand for AI power solutions, improving order trends in several of our end markets. And lastly, initial revenue ramps associated with design wins secured in past years.

Separately, we continue to expand and diversify our global supply chain, to ensure supply stability and capture future growth. As we have emphasized for many years, our results reflect continued success of our proven long-term growth strategy, and our transformation from being only a chip supplier, to a full solutions provider.

I will now open the webinar up for questions. Gen, could you please ask the first caller?

Genevieve Cunningham

Our first question is from Matt Ramsay of Cowen. Matt, your line is now open.

Matt Ramsay

Thank you very much, everybody. Good afternoon. Michael, Bernie, congratulations on, I'll just say, it's nice to have a calm part in the storm relative to what's been - all of us have been dealing with over the last two weeks, so congrats. I wanted to ask a couple of questions that I imagine the enterprise data segment is going to be a huge focus on this call. So maybe I'll just start with the first question. Bernie, if you could maybe give us some directional color by end market in your guidance for September, I'd appreciate it. And secondly, Michael, if you could talk a little bit about what you're seeing in some of the non-enterprise data segments, like things like consumer, comms, auto. The model's been driven by this big growth in enterprise data, but from what I can tell, your company's had a lot of design win success in some of these other areas where the macro has really been challenging. And I'm wondering if you're starting to see any green shoots there yet, for a recovery in some of those other segments? Thanks, guys.

Bernie Blegen

Sure, I'll keep my comments fairly short as far as the Q3 outlook by end market. Essentially, the bookings trend that we carried into Q3 has improved quite a bit over the last few quarters, and has been fairly broad as far as the end market participation. If you look specifically at enterprise data, you'll see that we took a fairly large step up in each of the last two quarters. And then in

the third quarter outlook, we see continued growth in communications, storage and computing with incremental improvements also in our other groups.

Michael Hsing

Yes, your second question, as Bernie said it, we do see some of our - other business would not relate to AI. And now it is difficult to separate AI, non-AI. Other business we designed in which we - let's say that, okay we ship these products half a year ago, a year before, we see the market start to wakening up. But that's whatever it is, whatever it is, okay.

And we do see a lot of new design, new requirement, which is much higher power, for especially for communications. And well, as a matter of fact, as across the board and these designs are much higher power than the previous versions and these are all relate to the new design, relate to AI, and AI requirements. And these design wings, we'll probably triggered downs in two or three years, and turned into revenues.

Matt Ramsay

Thank you very much, guys. I appreciate it. I asked two questions at once. So I'll get back in the queue. Thanks.

Genevieve Cunningham

Our next question is from Dustin Fowler of Oppenheimer. Dustin, your line is now open.

Dustin Fowler

Hi guys, I just have couple of quick questions. So for power isolation, I believe you ramp later this year in auto followed by data center next year. I think both markets could be Greenfield opportunities in the hundreds of millions each. Could you just give us a sense of the ramp in both markets, the competitive landscape and maybe any market sizing if you can?

Bernie Blegen

Dustin, I apologize. This is Bernie. I didn't hear which two markets.

Dustin Fowler

Oh, sorry. That was auto and data center for power isolation?

Bernie Blegen

Ok

Michael Hsing

Yeah. We do start to ship in the gate and the product for the higher powers and for data centers and this is only the beginning. And would you say that that's very true. Auto is being known and we, when ADAS and became more, more and more the cars converged into the

ADAS, okay. And which we believe in being a two or three years, all the cars will have that features. And we, so far we provide all the, we have design win in all these car makers, especially in the EVs.

Dustin Fowler

Okay. And I guess as we think about kind of auto this year, I think street has auto model flat. I guess how realistic is that given 70% content gains you have with your largest auto customer before power isolation plus the wins with Chinese OEMs? I guess maybe for Bernie, are you modeling auto flat this year? And how should we kind of think about share gains?

Michael Hsing

Well, we cannot pick the..., you want to pick the models and gave me, and you want to pick them, I can't give you a model. My accuracy is a plus minus 12 months. And going forward, we are very confident.

Bernie Blegen

Yes, I think the near-term outlook for automotive remains a little bit fuzzy. And for example, in Q2, we were expecting a nice uplift, which did not occur. And so Michael's correct is that positioning within the next two, three quarters, is hard to predict for auto more broadly and EV specifically, but our long-term positioning is only getting better with additional design wins.

Dustin Fowler

All right, thanks guys.

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'm hoping you can linger on that comment you made about solution selling. I think might've been the term used. I think in the past, we've been conditioned to hear about modules versus semis. Can you linger as to what your, maybe spend a minute explaining what sorts of products and what end markets, and what growth you see coming from that activity?

Michael Hsing

I like that question. Yes, okay. As we said, we started that journey long time ago, okay. And at the beginning, maybe I didn't know, we didn't know what the hell we were talking about. And okay, but that's the directions. And that's including a part of e-commerce. And we sell plug and play solutions. So the effort is that the journey will be, we are, we known to be a semiconductor company. And yes, we do. We do all that we provide. And when we sell a silicon, we're selling, actually we're selling a solutions. We know all the technical details in terms of how we implement the solutions. So my effort is we want to monetize all our knowledges. MPS in the end, doesn't make any things. And we all making the money from our knowledge. While we just capitalize all the entire our capabilities.

And so the journey we started, now we're selling the solutions. It's probably 20%, 25% of a total MPS total revenue. Every piece of a silicon used to be selling somewhere between \$1, and \$0.50 to \$1. Some of them are a lot of them even lower for the mass market. And which we kind of vary little now, especially in consumer business. And now, we're turning to a solution company is still a semiconductor-based solutions.

We sell those solutions. Now particularly as you call it, as a modules. And like I don't know what the appropriate word for that. And so today is 25%, 20% to 25% of a total revenues. MPS module business excluding AI. We're running a couple hundred, close to \$200 million. And we're growing every year by more than company's percentage growth. And if you look at this, this way, every chip we sell, all the solution is more than a chip price. And you generally \$4, \$5, \$6, \$10 of a content that we can sell. So that's the result of today. And we will commit on the journeys. And again, we're transforming a company to a silicon only, to silicon-based solution providers.

Bernie Blegen

And Will, if I could just add two comments quickly. The first is, and this is specific to your question, that it's across all of our markets. It primarily focuses on those that have longer design cycles, where we can add expertise in design solution. And the second point is again, while we are driving a lot, a higher percentage of our business to the modules, or to the more complete solutions. We have the ability, like no other company to be able to deliver the type of solution our customer wants, whether it's a die, a chip, or some package in between.

Michael Hsing

Yes, and many -- maybe traditional semiconductor companies they are hard to distinguish, whether they're solution providers or selling modules, selling solutions, or selling semiconductor only. And that's especially the case and apply for AI powers. And there's a very

few company using a silicon based, the module solution to power up this AI solution or data centers.

William Stein

If I can add a follow-up please. Can you talk about what you're doing in vertical power delivery? I know there's a lot of companies that are claiming to have it, or be ramping it. And I know you guys are one of those companies that are I think more clearly delivering, but maybe you can talk about what your efforts are yielding in that area? Thank you.

Michael Hsing

We are - in the leading positions. Okay, I said it - and there's maybe one, I will say the one or two company. Maybe one company have the capability have - and similar to MPS. The market is huge and it's growing. And MPS is, with the leading position, is because not by one day, when AI happened, we developed it, we developed that years ago for that. And there's not many semiconductor companies that are based at the semiconductor company have that kind of a capability.

William Stein

Thanks guys, good job on the quarter.

Genevieve Cunningham

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

Quinn Bolton

Hi guys, let me offer my congratulations. Maybe just first Bernie, a quick follow-up on Matt Ramsay's question on the drivers of sequential growth in the third quarter. I think you mentioned comms and storage and computing, but I didn't hear you specifically say enterprise data. I just wanted to confirm enterprise data is still one of the big growth drivers in the third quarter. And then I'll get to the two questions?

Bernie Blegen

On the enterprise data, the way I tried to tee that up, first off, yes, it is expected to grow, but we have grown significantly each of the four prior quarters to this. So, the rate of growth is slowing down. And the biggest..., ah for this quarter only and I offer that because there's a lot of opportunities that have yet to begin to ramp with a number of the different companies that

we're currently working on designs with. But I was calling out in particular that both storage and computing and communications will be good drivers in Q3.

Michael Hsing

Quinn, you know VR 13.5 and we start to have a significant revenues. And that was the beginning, you know that. And VR 14, which hasn't really ramped, ramped up yet. And we have a lot of design, we increase it. VR 13.5 is like a MPS -- MPS is a test case. And so when during the shortages, okay, a lot of revenues, a lot of volumes shifted to MPS and our competitors couldn't deliver, we delivered and we delivered. And now the benefit it is - for VR 14, where will be a significant players in the market segment.

Bernie Blegen

And particularly in the second half of this year, it looks like that segment is starting to take off.

Michael Hsing

Yeah.

Quinn Bolton

Great, that was going to be sort of, I guess my first question was just, could you talk within the enterprise data about some of the opportunities, whether it's on the CPU power side or just broadening out of your AI portfolio? And then I'll have another question on vertical power if I could squeeze in that second question?

Michael Hsing

Go ahead.

Quinn Bolton

So the question on vertical power, I mean, just some different competitors, may mean different things when they're talking about vertical power. And I just wanted to kind of get your guys' view on the market. When you guys talk about vertical power, is that true vertical power where the voltage regulator is sitting underneath the processor substrate and supplying current vertically into the processor? Or do you guys consider sort of stacked packages, where you've got one or more voltage regulators, or phases in a module with the power inductors and capacitors, and other things that might be stacked vertically, but still delivering current laterally into the processor? What's your definition of vertical? Because I think there's some confusion in

the market of what may be vertical and what might look vertical, but actually still supply current laterally?

Michael Hsing

Yes, you're right. There's one is, some customers so, and using the top surface lateral power supply, which is like a very similar to server, the server CPU power supply. And other ones, turning into the backside, still lateral, lateral powers. And more advanced one is directly under the CPU. And so to answer the question, is MPS supply currently we're running all three solutions. Chip, all modules, we have everything there.

Bernie Blegen

And Quinn, if I could also add to this that, the necessity for the different deliveries of power, is as you get into increasingly higher current and in addition to either lateral or vertical power, we also have liquid cooled that, we believe that we have a position on.

Michael Hsing

Yes, to Quinn, to answer your question is that the most efficient and difficult to do, is you're making a module directly under the CPU. And that's the highest efficiency power delivery. There's a lot of a problem, and a lot of technical issues associated with that type of approach. So many companies take a conservative approach, okay and some companies just do only like surface and top surface lateral power delivery. And for those very high powers, well over 1000 watt, all these powers, the power modules directly under the CPUs. And these are the highest efficiency.

Quinn Bolton

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

Genevieve Cunningham

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

Tony Balow

Chris, can you hear us?

Chris Caso

Sorry, I was on mute. You can hear me now?

Michael Hsing

Yes.

Chris Caso

All right, sorry, thank you. The first question is on seasonality, and how that may be changing for you. In the past, the December quarter typically was a seasonally down quarter, but your business mix has changed quite a bit, since those days and the revenue is now coming from segments that are not as seasonally, not a seasonal December quarter. With that, how should we look at December seasonality going forward, or is the old model no longer appropriate, as we look forward? And if there's anything you want to comment on with respect to December?

Michael Hsing

Yes, we're seeking advice from you. What's our seasonality? With a new business, with all these inventory oscillation from our customers, and we don't know so came in - you have a huge shortage, then it comes up the huge over supplies, and okay now, the main, I assume, and our customers consumes all these excessive inventory. Now the market is waking up. And is there another shortage? I don't know. And it's difficult to forecast. And - the lead time is still very short.

Chris Caso

Okay. So we'll do our best.

Michael Hsing

Yes, yes. You can tell us.

Chris Caso

All right. That's fair enough. As my follow-up question, I wanted to follow-up with vertical power as well. And what we know, particularly within the enterprise segment AI, we've got some higher wattage processors coming. Can you talk about what you expect for content on that, and what in particular you expect for vertical power next year? Because I know there's

some debate, certainly doesn't seem to be debate over whether you're ready for vertical power, whether the ecosystem is ready for vertical power. And does that make a difference with regard to your content, as you go into the next generation of processors, because the wattage is certainly going higher?

Michael Hsing

Yes, I can tell you this. Our customers will not be appreciated in talking about how many - dollar per their unit, or GPU unit, okay? And so, then they don't want us to talk about it. And second, I don't know, I don't want to know about it.

Chris Caso

Okay, right. Understand, but I mean, in just in terms of the opportunity, maybe you could speak in more general terms about the opportunity that's available to you?

Michael Hsing

Oh, sure, yes. And now you look at our revenues, right. Okay, for a couple of companies, okay, and from last year, was like a what, it's a 1% or 2%, or maybe last year's, okay, couple of percentage our total revenue. Well, today, so like we're running like a what, 20%? And 20%, so that's a full \$500 million, okay. And we were told this is at the beginning. And there's a lot of other companies, like where our opportunities and our design wing hasn't really ramped up in company like Google's and AWS and Meta. And those coming later. So I see the huge opportunities and I do see, okay, this is not MPS only, but the market's way too big. We don't want to turn into an AI company only.

Tony Balow

Yes, I think the only thing I'd probably had on top of that besides for the direct AI opportunity, I think you've heard us talk about the AI trickle-down effect, whether that can be memory, it can be optical, it can be pulled through of networking. I think there's a lot of opportunity for MPS, beyond even the direct AI business.

Michael Hsing

That's a good comment, yes.

Chris Caso

Right, appreciate those comments. Thank you.

Genevieve Cunningham

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

Tore Svanberg

Yes, thank you, Michael, Bernie. And congrats again on another stellar quarter. I wanted to follow-up on enterprise data, but I'm going to move away from the processor power management and ask you more about opportunities elsewhere in the data center, especially power supply. I know historically you haven't talked a whole lot about GAN, silicon carbide, but I'm pretty sure you have some activities there. So can you elaborate a little bit on what you're doing on the power supply side of data centers?

Michael Hsing

Yes, I like that one. Okay, I like that one. But I can't tell you the revenue yet, but it's a small, okay. And we, in the since 2016, and again, we start to develop our own silicon carbide. We're not selling FETs. It will be a part of our solutions. I said very, very early, so we're not intending to sell a FET as a power device only. So now, we designed those three-kilowatt, six-kilowatt, twelve- kilowatt power supply. And you guess what? It's a data center. It's a data evaluating, so we have a very little revenues, but the biggest is the MPS only, owned. All our test plot, we're using a huge amount of power supply, and MPS is our own customers. All these testing equipment that we have to design, we have to invent it, how to test these modules particularly, and also as well as burning. And MPS supply these power modules to our vendors, and our vendors are in problem went into these systems and it became our test equipment. And so, that's the revenues we start to generating. And but for 4G and for data centers, and these are still in the, well, we engage them a year ago or so, couple years ago. And so, the revenues small, but we're looking for the big revenues from that segment, because MPS provides the highest efficiency and the smaller size.

Tore Svanberg

Yes, that's great perspective. As my follow-up, I recall, because we've gone through a few cycles together, I recall usually you use downturns to gain a lot of share. I know everyone's excited about AI data centers today, but what are some of the areas, where you're starting to see more meaningful share gains from a designer perspective, now that we're sort of navigating here at the bottom of the cycle?

Bernie Blegen

Sure, so I think that we've been very clear about the positioning that we have an automotive, and how that's continuing to grow across multitude of different platforms with a multitude of different Tier 1 suppliers and OEMs. I think the most recent area for improvement where some of these greenfield opportunities, are becoming more visible in market, would be in particular with communications.

We're seeing that in the wireless and 5G, and I think that we've seen some early indications of continuing investment in that segment. So, I'd say that's probably the area that will be most visible, but obviously I don't want to forget industrial, which even though right now, is a relatively modest part of our business. And it's not shown a lot of momentum towards growth, probably is the next area, where we have a lot of greenfield opportunities that will materialize in the next four quarters.

Michael Hsing

Yes, go ahead.

Tore Svanberg

Yes, I was just going to ask, and the RV market, is that going to be under auto or industrial?

Michael Hsing

RV?

Tore Svanberg

The RV market, the camping car market, I know you've talked about that?

Michael Hsing

Oh yes. No, no. Yes, okay. That's one of my favorite ones. Okay, yes, okay. And I think it's going to be in industrial market. Because share - all these products share the same signatures as we do for data centers for our own test plot and for test equipment, okay. We'll be very much shared the same characteristics and also for robotics. And especially for those moving, not stationary robot. And these robots move around, and they all need that type of a power supply and the charging and the battery management. And these all share very much the same characteristics as RVs, okay RVs happen.

Tony Balow

Yes, those could be industrial or consumer or even the humanoid stuff too. So I don't think I want to just put those...?

Michael Hsing

I think it's a - we're probably in the industrial side. Yes, okay, yes.

Tore Svanberg

Sounds good. Thank you and congrats again.

Bernie Blegen

Okay. Thanks, Tore.

Genevieve Cunningham

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

Quinn Bolton

Hi guys, just wanted to add a quick follow-up question. There have been a few semiconductor companies this earnings season that have sort of mentioned having licenses to - Huawei being revoked in the quarter. And it's raised some questions from investors. I just wondering if you guys could address do you have a license to ship to Huawei? If you did, has it been revoked? Is that, is there any real exposure at MPS to that customer? It's obviously not impacting your near-term outlook, but I figured I just asked, because we've gotten a number of questions on potential Huawei exposure, across the semi coverage. Thank you.

Bernie Blegen

Quinn, I can make this pretty simple. We don't have any licensing or contractual arrangements with Huawei that are at all. So, they can't be canceled. Any business we have with them has always just done on a PO basis, and we have no indication of a change in their relationship.

Quinn Bolton

So, Bernie, I guess there was more that export license question. Do you need an export license to ship to them? I think that's what's sort of...

Bernie Blegen

Oh, the export licenses

Michael Hsing

Yes, our product is not, not like in the 20, below 24 nanometer or whatever, that we are not, as far as I know.

Bernie Blegen

Yes, you're right.

Michael Hsing

And as far as I know, we're not subjected to the export limit, have any limitations. And, but we will talk to our, to answer your question precisely, I will consult our legal counsels.

Quinn Bolton

Yes, okay. Okay. Thank you.

Genevieve Cunningham

If there are any follow up questions, please click the raise hand button... As there are no further questions, I would now like to turn the webinar back over to Bernie.

Bernie Blegen

Great. I'd like to thank you all for joining us for this conference call and look forward to talking to you again during our third quarter conference call, which will likely be in late October. Thank you, have a nice day.