Monolithic Power Systems Inc (NASDAQ:MPWR)
Q3 2021 Earnings Call Transcript
October 28, 2021, 2:00 p.m. PT, 5:00 p.m. ET

Call participants:

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Michael R. Hsing -- *Founder, Chairman, President & Chief Executive Officer*

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Matt Ramsay – *Cowen and Company, LLC, Research Division-- Analyst*

Ross Seymore -- *Deutsche Bank AG -- Analyst*

Alessandra Vecchi – *William Blair -- Analyst*

Quinn Bolton -- *Needham & Company, LLC -- Analyst*

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Hans Mosesmann -- *Rosenblatt Securities Inc. -- Analyst*

Genevieve Cunningham:

Welcome everyone to the MPS third quarter 2021 earnings webinar. Please note that this webinar is being recorded and will be archived for one year on our investor relations page at www.MonolithicPower.com. My name is Genevieve Cunningham, and I will be the moderator for this webinar. Joining me today, are Michael Hsing as CEO and founder of MPS, and Bernie Blegen, VP and CFO.

During this webinar, we will discuss our Q3 2021 financial results and guidance for Q4, 2021, followed by a Q and A session. Analysts, you are currently muted. If you wish to ask a question during the Q and A session, please click on the participant's icon on the menu bar and then click the “raise hand” button.

In the course of today's webinar, we will make forward looking statements and projections that involve risk and uncertainty, which could cause results to differ materially from management's current views and expectations. Please refer to the Safe Harbor Statement contained in the earnings release published today. Risks, uncertainties, and other factors that could cause actual results to differ are identified in the Safe Harbor Statements contained in the Q3 2021 earnings release and in our SEC filings, including our Form 10-K filed on March 1st, 2021, and our Form 10-Q filed on August 9th, 2021, which are accessible through our website, www.MonolithicPower.com.

MPS assumes no obligation to update the information provided on today's call. We will be discussing gross margin, operating expense, R&D and SG&A expense, operating income, interest, and other income, net income, and earnings on both a GAAP and a non-GAAP basis. These non-GAAP financial measures are not prepared in accordance with GAAP and should not be considered as a substitute for, or superior to measures of the financial performance prepared in accordance with GAAP. A table that outlines the reconciliation between the non-GAAP financial measures to GAAP financial measures is included in our earnings release, which we have filed with the SEC. I would refer investors to the Q3 2020, Q2 2021, and Q3 2021 releases as well as to the reconciling tables that are posted on our website. Now I would like to turn the call over to Bernie Blegen.

Bernie Blegen:

Thanks Gen.

MPS achieved record third quarter revenue of $323.5 million; 10.3% higher than revenue in the second quarter of 2021 and 24.7% higher than the comparable quarter in 2020.

Looking at our revenue by market

Third quarter 2021 industrial revenue of $52.2 million increase 20.5% from the second quarter of 2021 due primarily to increased revenue for industrial meters and power sources. Industrial revenue represented 16.1% of our total third-quarter 2021 revenue.

Third-quarter 2021 communications revenue of $44.7 million was up 19.3% from the second quarter of 2021 primarily due to increased infrastructure demand. Communication sales represented 13.8% of our total third-quarter 2021 revenue.

In our computing and storage market, third quarter revenue of $98.6 million increased $10.9 million or 12.4% from the second quarter of 2021. The sequential quarterly revenue growth primarily reflected sales gains in storage applications. Computing and storage revenue represented 30.5% of MPS's third quarter 2021 revenue.

Third-quarter automotive revenue of $54.4 million grew $5.7 million or 11.7% over the second quarter of 2021. This improvement reflects continued gains in applications for infotainment, lighting, and ADAS. Automotive revenue was 16.8% of MPS's total third-quarter 2021 revenue.

In our consumer markets, third quarter 2021 revenue of $73.6 million fell 3.3% from revenue reported in the second quarter of 2021. This decrease in consumer revenue reflected lower handset sales. Consumer revenue represented 22.8% of our third-quarter 2021 revenue.

Third quarter 2021 GAAP gross margin was 57.6%, which was 160 basis points higher than the second quarter of 2021 and 245 basis points higher than the third quarter of 2020. Non-GAAP gross margin for the third quarter of 2021 was 57.8%, 148 basis points higher than the gross margin percentage reported from the second quarter of 2021 and 231 basis points higher than the third quarter from a year ago.

Third quarter 2021 gross margin on both a GAAP and a non-GAAP basis included a $4 million litigation settlement. Excluding this one-time benefit, non-GAAP gross margin would've been 56.6%, essentially flat with the second quarter of 2021 and 110 basis points higher than the third quarter of 2020.

Our GAAP operating income was $77.1 million compared to $60.6 million reported in the second quarter of 2021 and $60.0 million reported in the third quarter of 2020. Our third quarter 2021 non-GAAP operating income was $108.4 million compared to $94.9 million reported in the prior quarter and $84.9 million reported in the third quarter of 2020.

Let's review our operating expenses

Our GAAP operating expenses were $109.2 million in the third quarter of 2021 compared with $103.6 million in the second quarter of 2021 and $83.1 million in the third quarter of 2020. Our non-GAAP third-quarter 2021 operating expenses were $78.7 million, up from the $70.3 million we spent in the second quarter of 2021 and up from the $59.1 million reported in the third quarter of 2020. The sequential increase in Q3 non-GAAP operating expenses primary reflected an increased spending in R&D for qualifying parts for production and securing foundry capacity.

The differences between non-GAAP operating expenses and GAAP operating expenses for the quarters discussed here are primarily stock compensation expense and an income or loss on an unfunded deferred compensation plan. For the third quarter of 2021, total stock compensation expense, including approximately $922,000 charged to cost of goods sold, was $31.6 million compared with $32.1 million recorded in the second quarter of 2021.

Switching into the bottom line

Third-quarter 2021 GAAP net income was $68.8 million or $1.44 per fully diluted share compared with $55.2 million or $1.16 per share in the second quarter of 2021 and $55.6 million or $1.18 per share in the third quarter of 2020.

Q3 non-GAAP net income was $98.6 million or $2.06 per fully diluted share compared with $86.5 million or $1.81 per share in the second quarter of 2021 and $79.4 million or $1.69 per share in the third quarter of 2020.

Fully diluted shares outstanding at the end of Q3 2021 were 47.9 million.

Now let's look at the balance sheet

Cash, cash, equivalents, and investments were $744.5 million at the end of the third quarter of 2021 compared to $672.9 million at the end of the second quarter of 2021. For the quarter, MPS generated operating cash flow of about $117.8 million compared with Q2 2021 operating cash flow of $96.9 million. Third quarter 2021 capital spending totaled $18.6 million.

Accounts receivable ended the third quarter of 2021 at $79.9 million, representing 22 days of sales outstanding, which was two days lower than the 24 days reported at the end of the second quarter of 2021 and 11 days lower than the 33 days at the end of the third quarter of 2020.

Our internal inventories at the end of the third quarter of 2021 were $208.1 million, up $30.8 million from the $177.3 million reported at the end of the second quarter of 2021. Inventory at the end of the third quarter of 2021 represented 134 days, which were nine days higher than at the end of the second quarter of 2021.

Historically, we have calculated days of inventory on hand as a function of the current quarter revenue. We believe comparing current inventory levels with the following quarter's revenue provides a better economic match. On this basis, you can see inventory at the end of the third quarter of 2021 represented 135 days, 18 days higher than the 117 days at the end of the second quarter of 2021 and six days higher than the 129 days at the end of the third quarter of 2020.

Currently, our inventory levels remain lean. We are working very hard to return inventory to the 180- to 200-day level necessary to support our future growth.

I would now like to turn to our outlook for the fourth quarter of 2021

We are forecasting Q4 revenue in the range of $314 to $326 million. We also expect the following:

GAAP gross margin in the range of 56.0% to 56.6%.

Non-GAAP gross margin in the range of 56.3% to 56.9%.

Total stock-based compensation expense of $30.8 million to $32.8 million, including approximately $950,000 that would be charged to cost of goods sold.

GAAP R&D and SG&A expenses should be between $107.8 million and $111.8 million.

Non-GAAP R&D and SG&A expenses to be in the range of $77.9 million to $79.9 million.

Litigation expense is expected to be in the range of $3.5 million to $3.9 million.

Interest income is expected to range from $1.0 million to $1.4 million, fully diluted shares to be in the range of 47.9 to 48.9 million shares.

In conclusion,

We are continuing to execute our strategy. I will now open the webinar up for questions.

Genevieve Cunningham:
Thank you, Bernie. Analysts, I would now like to begin our Q&A session. As a reminder, if you would like to ask a question, please click on the Participants icon on the menu bar and then click the Raise Hand button. Our first question comes from Tore Svanberg of Stifel. Tore, your line's now open.

Tore Svanberg:
Yes, thank you and congratulations on these continued stellar results. First question, and not to sort of pick on segments here, but your consumer segment was down sequentially, and you talked about cell phone. I wasn't aware Monolithic Power had that much exposure to cell phone. Is this mainly on the charger side or anything else there that we should be aware of?

Michael Hsing:
Tore, yeah, I think it is on the charger side, and we do these fast chargers. And we picked up some revenues in last few years in those cell phone companies. And they thought that they can have more adoption in the market, so they have some inventories. But these are unusual way of charging phones, and it's still not very popular.

Tore Svanberg:
Great, thanks for clarifying that. And as my follow-up, you have a luxury problem now. You have about three quarters of a billion in cash on your balance sheet. I know you're out there trying to secure more capacity. So first of all, could you update us on where you are on securing capacity, especially for the next few years? And related to that, will you start to use some of that cash more aggressively, potentially buying more equipment as you continue to obviously show very strong growth? Thank you.

Michael Hsing:
All right, let me answer the first part. It is, the expansion is still on track, okay, and fab issues, we don't have. We have less fab issues, and we are on the way to expand our capacity sometime in middle of next year to about over $2 billion, supporting $2 billion sales. But the same times, we do have to buy more equipment for testing, for qualifications, and also, we need to hire more people. And as you know, to qualify, each part, it takes time. And the revenue's there. Opportunity's there. It's just a matter of time.

And so the second part is buying more equipment. On the other hand, the investor ... our shareholder investors, and they're very critical about ... criticize in the past our spending, okay? And we're slightly out our model now, so okay. And we spend money, and we want to be more, more careful, okay? But opportunity is there, but we do more, more sensibility.

Bernie Blegen:
Yeah, and I think, if I can just add to Michael's comment there, is that as far as the model that we've always pursued, it was to have our fab partners and our assembly house partners absorb much of the capital required in order to build up capacity and that that remains, our being as a fabless company. So nothing has changed in our model. We're just adapting it to this rate of growth that we're enjoying right now.

Tore Svanberg:
Great. Thanks again. I'll go back in line.

Michael Hsing:
Okay.

Genevieve Cunningham:
Our next question is from Matt Ramsay of Cowen. Matt, your line is now open.

Matt Ramsay:
Thank you very much. Good afternoon, everybody. For my first question, Michael, I wanted to ask about a couple of the different computing markets that you guys have products to support. The first one, I think you could ... I don't know. From my perspective, you could kind of drive a bus through what different PC expectations are for next year, and I wonder if you might touch on what rough percentage, Bernie, of revenue might come from the notebook market and what your underlying planning assumptions are on the PC market for next year. And I guess in contrast to that, Intel's launching Sapphire Rapids. AMD's launching Genoa next year. What kind of a tailwind from a content perspective could those upgrades in the server market be? And then I have a follow-up. Thanks, guys.

Michael Hsing:
Okay. For the notebook size, obviously, we gained some market shares in the high-end notebook, and these are after the pandemic, okay, or still the tail end of the pandemic. And we

increased quite a bit of the market shares. But the story there, it's not just we're getting ... that's all we can get. As we increase our new generation of technologies that's in place, and we will further reduce the cost. And we will adjust the high end of the consumers' side. And I don’t know if I addressed your, to answer your questions, okay. And on the server side, we are still very, very small players. There's a lot more room for MPS to gain.

Bernie Blegen:
Yeah, and I don't think that we've ever specifically broken out what percent of the group's revenue is tied to any one of the categories that we track. But I think we have been clear that in each of the last two years, that the growth in notebooks has outpaced the rest of the sectors, including server and storage. Now, having said that, one of the things that we're benefiting from is the diversification of how we're positioned in this group. As Michael indicated, we are a relatively small player when it comes to core power management for servers, and we believe that with both the next generation of Intel and AMD processor releases that we stand to benefit from market share gains. And in the more near-term element, as we called out in Q3, we're actually seeing a nice increase in storage sales, which is usually a precursor to ongoing infrastructure spending within the data centers. So I think that we're having as great a difficulty as anybody in understanding when work from home or work from work, as it relates to notebooks, begins or ends, but I think that we're well positioned, because of our diversification, to enjoy continued growth in this category for a number of years.

Michael Hsing:
Let me go back to the notebook side. I think that part of a question I didn't answer, so again, we're still facing shortages, and still a lot of demand in a notebook side. We see revenues from in the middle of a next year, even.

Matt Ramsay:
Got it. Thank you very much for are all that commentary guys, just a quick couple of things on gross margin. One, Bernie, the one timer that was in Q3, any particular reason you didn't pull that out of the non-GAAP number, and secondly, with the pricing environment that we're feeling today, how do you guys think about price increases going forward relative to input costs and what that could mean to margins? Thank you very much.

Bernie Blegen:
I'll take the first half of that question real quickly. And then Michael will give comments on the second. As far as how we try to manage GAAP and non-GAAP reporting is really to be a reflection of what is cash. And in this case, we highlighted that there was a settlement, and that was a cash payment that we received. And so that's the thinking behind not adjusting it as a non-GAAP item. Conversely so, if we have something that works toward our detriment and it also has cash implications, we wouldn't non-GAAP that out either. So, the two areas that we stay pretty closely to, or three I should say, are only stock comp, gain and loss from a deferred comp plan, and if we have any intangible acquisition amortization.

Michael Hsing:
Okay. The second part is how it affected our gross margins on the current supply shortages. Okay, as I said. All these new, well, let me say this. Yes, we do see the cost increase in. Fortunately, all the product that we released. The gain of market shares, as you know, all these green field products. We started to gain momentum a couple years ago, and these all have higher margins, and our customers give us a very long-term forecast commitment, and we honor those. We can absorb some in some of the cost and because these products have much higher margins. So, during this time we value the customer relationship and that we don't gouge price.

Genevieve Cunningham:
All right. Our next question is from Ross Seymore of Deutsche Bank, Ross, your line is now open.

Ross Seymore:
Thanks for letting me ask a question. Congrats on continued strong reports and guides. One question on an end market, the communication side, Bernie or Michael, you guys said that that was up because of infrastructure. That's been a really choppy market for you guys between the infrastructure side going on and off, and then the kind of the access side. Can you just talk a little bit more about what you meant by the infrastructure side, and is that the start of something that's going to continue? Or should you expect that segment to continue to be lumpy going forward?

Michael Hsing:
Well, Ross, you know, we're transition from these wifi routers and those to more real infrastructures, and that can mean in a data centers. These are communication between the data centers and the switchers and even towers. So, the last years our customers are pulling a lot of revenues, and in these times we see all the other things going like 5G and including commercial wifi systems, and we played a critical role in these areas. And we see the expansions, and we will see further, we will continue to expand in the next few quarters.

Bernie Blegen:
Yeah, I think we remain very optimistic about our long-term positioning within the communication sector, and in particular infrastructure as it relates to 5G, but I think that right now we have not hit a constant investment cadence on the part of the carriers in either Europe or North America. So, we think that as that starts to gain momentum and gets more predictable, we're very well positioned to participate in that.

Ross Seymore:
Thanks for that color, I guess, as my follow up, seasonality versus kind of cyclicality and/or supply-driven moves. Obviously your fourth quarter's guided a bit better than your traditional seasonality kind of flattish this year, but how are you thinking about that as we go into next year and beyond? Is, it mainly going to be driven by the product cycles you have in short supply

and aggregates? So those would be big tailwinds, or do you believe seasonality is going to become a framework that's something that investors should consider as we go into 22?

Michael Hsing:
Well, Ross, you see this market is an exceptionally strong market, and a lot of demand is everywhere, it's also constrained by the supplier. We do have delinquencies and we're facing delinquency for many quarters. My opinion is that we still have some kind of a seasonality in fourth quarters because all these holidays, and it will kind of affect us. So, as I said earlier, demand is still very strong. We are just cautious in our guidance.

Bernie Blegen:
And just to add to that, is that right now, what we are continuing to do is investing in expanding our capacity, because we believe that this robust demand that we're experiencing will continue, and we want to be able to participate, optimize to the best of our ability this growth opportunity.

Michael Hsing:
Oh yeah, let me clarify the shortages. Okay. What I mean shortage, is that we have a few thousand products and always have some mixed issues. We don't have serious, we don't have fab capacity issues, but all these are mixed for particular product. We have a few products that are facing shortages now. And as we transfer to a different fab, it just takes time to qualify this.

Ross Seymore:
Got it. Thanks guys.

Genevieve Cunningham:
Our next question is from Alex Vecchi of William Blair, Alex, your line is now open.

Alex Vecchi:
Hey guys, congratulations on the strong results. Maybe just to piggyback on Ross's question a little bit with seasonality. Bernie, can you give a little color on how we should think about the sequential growth by end market for Q4 in terms of maybe strongest end market to weakest?

Bernie Blegen:
Sure. So, when you look at Q4, I think that the two primary drivers are going to be computing and in continuation of automotive, and then, you would normally expect, and we expect to see a slight downturn in consumer. So, I think many of the trend lines that we're familiar with are continuing and ongoing, but the amplitude might be a little up or down from what the traditional seasonality has been.

Alex Vecchi:
Great. That's helpful. And then, similarly, I think on the communications line, as well over the last couple quarters, I believe you guys have pointed to, ramp up at tier two 5G, OEMs. How

should we be thinking about the opportunity eventually, maybe next year to crack into a tier one, or just generally how to think about how you're positioned there geographically?

Michael Hsing:
Yeah, we are designing in all tier one's now, and we are so small still in these big growing market segments. As you know, we don't have anything in even 4G, and we expect that we will be significant players in there.

Alex Vecchi:
Okay. That's helpful. With that, I'll go back in queue.

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. Michael or Bernie, I guess I wanted to, I know there have been a lot of disruptions in Southeast Asia, more on that package and test side. Wondering if you could just say whether or not you have any exposure to Malaysia subcons, and whether that affected your ability to ship or receive products here in the third quarter or in the fourth quarter looking forward.

Michael Hsing:
Yeah. It's not so much. It affected maybe some products did not come in. Because we control a lot of our new product, we control our own package technologies, so we always qualify in different locations. So, we came in these Southeast Asia problems, and we can maneuver through it. We didn't have that much issue.

Bernie Blegen:
Correct. And in the Q3 or our outlook for Q4.

Michael Hsing:
Yeah.

Quinn Bolton:
Got it. My, my second question, just on the supply chain is, it sounds like from your comments, you're not seeing some of the fab constraints that you'd seen earlier, and inventory increased by 30 million sequentially. I guess my question is, as that capacity comes online, as you ramp inventory on hand, do you think that that could lead to an acceleration in ability to meet former delinquencies, and see revenue growth rate potentially accelerate as you meet some of those delinquencies or it does it really all come down to that product mix of what customers are demanding versus what you have in inventory that you see that mismatch potentially continuing for several quarters?

Michael Hsing:
Yeah. To answer your question as of today, absolutely. And we have a lot more we can chew off now. And, as shortages, go on all the new product adaptions, and all the great few products that we ramped much, much faster than we expected. We have lot more out of forecast orders we cannot fulfill so. These ones, our customers understand that. Okay. So now, as of today we have a blue sky, but doesn't mean it will not rain later. I can't forecast it.

Bernie Blegen:
Just to add it's a balancing, as you can appreciate, because for some of the more mature products that we have, they already have developed markets and a fairly predictable growth in the current market. But what we're trying to do is make sure that these new product introductions can be a success because that is going to be the future growth opportunity for the company. So, we're trying to satisfy sort of the run rate business in this period of heightened demand and at the same time have very successful new product launches with new customers.

Quinn Bolton:
Can I squeeze one last one in? Do you guys have any meaningful exposure to Chromebooks and is that a share gain opportunities to look into 2022? Thank you.

Michael Hsing:
Yes, we have it. And if we have a notebook product, we might as well go design it everywhere.

Bernie Blegen:
Yeah. Chromebooks are unique because while they're considered a, we tend to go after high value notebooks, and Chromebooks are known to be lower priced, but they depend on the access to the cloud and good processing power. So the power management, our power management solution, is very key. It's high value for the Chromebooks.

Michael Hsing:
Yep. As I said earlier, as our technologies come online and become more mature, why not just attack all these other markets that we are not in.

Quinn Bolton:
Got it. 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. Congrats on the great results and outlook. I want to ask one question about supply chain stuff and one about long term growth. First on the supply chain, it seems certainly if we look not just at your business, but across semis, that customers have been in sort of freak out expedite mode for quite some time. I wonder if you could give us

a sense as to whether that abated at all? Did the level or breadth of expedite requests change meaningfully in the quarter? Is it getting hotter or colder in any end market with regard to this sort of urgency of expedites and pull ins and upsides and all that activity we've heard about? And then again, I have a long term growth question.

Michael Hsing:
Yeah. Okay. The answer is, I wish that they'd come down a little bit, and they're exactly the same as the last quarter and quarter before. Yeah. Okay.

William Stein:
Okay. So the, the long term growth question, Michael, I think we've discussed this many times, but you know, we're aware that there's this long term potential to transition to more of a solutions provider with modules relative to your traditional semi device business. Can you talk about the trajectory of growth of the modules business, and update on perhaps percent of revenues today relative to a quarter ago, and where you think that could go over time? Thank you.

Michael Hsing:
Yeah. Our homegrown modules, and well, all the strategy that is MPS involved is a lot of technicals in the gate in terms of delivering the end product. Okay. If there's not end products, the mid product, if you will. Okay. So, our strategies move up to food chains. And since we have the knowledge in why we not captured all of all the values and for currently our module growths, it's much faster than, than all the semiconductors side growth, silicon chips, but the volume overall is still very small and compare the entire revenues. We try the different ways and launch our websites and MPSNow and then also using eCommerce.

These are doing well but now thinking about it, why we just buying companies and we know, that we need to gain knowledge, gain the sales channels, and have those company and adopting MPS technology. We can provide them better tools. Okay. And I think the first few attempt is a very encouraging. Okay. And obviously we can... I can’t talk the detail now and I think that's our strategies.

Bernie Blegen:
And if I can just remind you, well, that we talked about this, touched on it, last quarter and we indicated that what we're trying to do is source different technologies through either IP acquisitions or talent acquisitions that are complementary to our business and that will accelerate our ability to be a solutions provider for our customers in the next seven or eight years.

Michael Hsing:
Yeah. I just don't like it. We have so much knowledge to put into it. And in the end we sell a piece of a Silicon, average well below a dollar. We should sell a solution much more than a

dollar. $5, $6, $10 those type of things. And those customers will really appreciate it. They don't have to and design from scratch.

William Stein:
That's helpful insight. Thank you both.

Genevieve Cunningham:
Our next question is from Rick Shaffer of Oppenheimer. Rick, your line is now open.

Wie Mok:
Hi, good afternoon. This is Wie Mok on the call for Rick Shaffer. Just wanted to echo out congrats on the results. So for my first question, it's in regards to auto. So it's pretty much about known that the market is supply constraint though. You guys are still growing nearly 90% this year with industry reports, showing vehicle unit production improving in 2022. How should we think about your auto business as we look into 2022?

Michael Hsing:
At this time we see everything's very rosy now and we but on the other hand we are so small, there's no reason we would not grow even the downturns in as we have a... Look at the addressable market. This is like over six billion dollars. Even that's conservatively numbers. That's conservative numbers. And as we introduce more product, especially in ADAS and the EV proportion sites and we're developing products in all of these. And again, we can address the future growth really well. So give me there is 2022... There's no reason not if it's a... I want to say there is a lack of... to like last year so the auto industry just stopped and if it's in a normal times, there's no reason for us not to grow.

Bernie Blegen:
And I think to just follow on to the previous question, when we look at automotive, we're actually have system level design wins in ADAS, regenerative braking systems and in external lighting. And all of these solutions have much higher dollar content for us, $60 to a $100 per vehicle. So I think this is a very exciting example of how this solution strategy could play out in different end markets for us as well.

Wie Mok:
Got it. Great. Thanks for that. As for my second question is regards to console, you guys highlighted consumer being down in the fourth quarter. So is this more of a reflection of normal seasonality or are you seeing any supply constraints impacting consoles? Thanks.

Michael Hsing:
Well Q3 in consumer side, it should be the highest and I think that our customer size, they have a too much inventory in for the cell phones and that affects us, the cell phones, especially that's in China. When US had an embargo on the one of our companies. But the other ones, they

thought they can gain the market shares and actually they didn't. And so they stuck with the inventory.

Bernie Blegen:
And I think that what we tried to do in our prepared comments is really make that dip more narrowly defined, that it is really the fast charger in the handsets as opposed to anything that is more broad or pervasive in the rest consumer.

Wie Mok:
Thanks for that.

Michael Hsing:
Yeah. We didn't have much exposure in handset and that wasn't my favorite anyway. So we got these product and in last year and why not. We thought it would be good. Okay.

Bernie Blegen:
Well the technology has actually been very positively received. It's just the imbalance, as far as the demand that was expected has trailed those expectations. And so we believe that they have excess inventory and so we're seeing the slowdown for that particular individual category.

Genevieve Cunningham:
Our next question is from Kevin Garrigan of Rosenblatt. Kevin, your line is now open.

Hans Mosesmann:
Hey, this is Hans for Kevin. Hey guys, congrats. A couple of questions along the lines of inventory. I think AMD, Micron, on the PC side of things and Texas Instruments on a broader basis, are indicating that customers are changing their behavior a bit in terms of how they take in components in a supply constrained environment. So rather than just take everything they can get, they're being more selective is that something you guys are seeing and is that unusual if you are seeing that? Thanks.

Michael Hsing:
We are too small, but these are... We are very small player, much small players compared with Texas Instruments and the other guys. We don't have a luxury of picking market segments. We only focus on a long term, not focus. We don't do short term business anyway.

Bernie Blegen:
Yeah. To answer your question very simply, we haven't seen any change in ordering patterns or our delivery schedule and really don't have an opinion on what the broader market or other market participants are experiencing.

Hans Mosesmann:

Fair enough. And so this is the last question, your visibility in terms of when you can capture or get back to that 180-200 days of inventory, is that changed? And, what that timeline is? Is it the end of next year? Is it 2023? Thanks.

Michael Hsing:
I think the end of the next year would be a good number. Yeah. That's what we... If the market grows and continue to grow this strong and hopefully we can catch up in the end of the next year.

Hans Mosesmann:
And that's... Is that a push out or is that a pull in from last quarter?

Michael Hsing:
Well, again you said, I talk about last quarter pulling or push out. As I said earlier, we still have delinquencies. We have more delinquency than our customers push out. Let's set that with.

Hans Mosesmann:
Okay.

Bernie Blegen:
I think the important thing is that even with the demands that are placed upon us and Michael's correct that we saw no change in Q3 from what we experienced in Q1 or Q2. We were able to increase inventory in a meaningful way this quarter. So again, I refer back to an earlier answer. We said the balancing act that we're trying to do between satisfy more run rate business at the same time as we're meeting demand for our new products, as well as building inventory. That gives us more flexibility.

Hans Mosesmann:
Great. Thank you.

Michael Hsing:
Okay.

Genevieve Cunningham:
Next question is from Tore Svanberg of Stifel. Tore, your line is now open.

Tore Svanberg:
Yes. Thank you. I just had a few follow ups, first of all, Bernie, the gross margin guidance for Q4, that does not include any more litigation impact, right.

Bernie Blegen:
That is correct.

Tore Svanberg:
Okay, great. So the other question is a lot of your competitors are discreet companies and they're probably allocating their products all over the place right now which I assume means you're gaining share. Can you just talk a little bit to the stickiness of that? I assume once they go in an integrated solution they're not going to go back.

Michael Hsing:
That's very true. And when they taste simple, easy solutions. It's difficult. And for these high end market, that's what we focus on, customers pay for it. They deviated from the way their behavior how they design product. And I think that's a huge benefit to us and other customers, the more in the low end consumer business, we don't care.

Tore Svanberg:
Got it. Just one last question, Michael, in the past you've talked about, especially in servers and automotive, just getting the side dishes, but eventually you'll get the main course. Should we expect those two segments to see some main course revenue in 2022?

Michael Hsing:
Yes. We keep eating crumbs. Okay. And we eat a lot of crumbs, like whales. We're not whales, we're small fish to try to eat a lot of crumbs. And now the fish, we grow our self a little bit. We can eat the real meals and we keep saying, okay, we have the reference design in Intel and then the real OEMs pick up onesie and a twosie for these projects but these are the real beefs but a little bit small. I think the next years we will grow much bigger and VR 14 and 13.5 will benefit a lot. And other than the point of loads and the e-fuse and that kind of growth came in and now we really have a core power, have a meaningful revenue coming next year and now talking about VR 14 yet again. And the other thing is, I want to mention there's a lot of 48 volts process, as we said earlier. And by this year's... and we forecast about this year and the next year, the cross point had to happen. And again, we're waiting. We were waiting about 3-4 years ago. And we said that until we end up, when the powers keep increasing and the heat generation, heat dissipation, they cannot handle it anymore. They have to use the 48 volt solutions. And this has happened and start from AR and next year we see many data centers adopting 48 Volt solutions, and we have a benefit of a large lake.

Tore Svanberg:
Great, thank you very much.

Michael Hsing:
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 like to turn the webinar back over to Bernie.

Bernie Blegen:
I'd like to thank you all for joining us for this conference call. And we look forward to talking to you again during the fourth quarter conference call, which will likely be in early February. With that thank you and have a nice day.

Michael Hsing:
Okay. Goodbye.