Q1 2023 MPS Earnings Webinar

Monolithic Power Systems, Inc. (NASDAQ:MPWR)
Q1 2023 Earnings Call Transcript
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Company Participants:

Genevieve Cunningham - *Marketing Communications Manager*

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

Bernie Blegen – *Vice President & Chief Financial Officer*

Analysts:

Quinn Bolton - *Needham & Company, LLC*

Gary Mobley – *Wells Fargo Equity Research*

Hans Mosesmann – *Rosenblatt Securities*

Matt Ramsay – *TD Cowen*

Rick Schafer – *Oppenheimer Equity Research*

Ross Seymore - *Deutsche Bank Research*

William Stein - *Truist Securities*

Tore Svanberg – *Stifel*

Melissa Fairbanks – *Raymond James*

John Vinh – *KeyBanc*

Genevieve Cunningham

Welcome, everyone, to the MPS First Quarter 2023 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; and Bernie Blegen, VP and CFO.

In the course of today's conference call, 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 Q1 earnings release and in our SEC filings, including our Form 10-K filed on February 24, 2023, which is accessible through our website.

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, other income, income before income taxes, 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 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 Q1 2023 earnings release, which we have furnished to the SEC and is currently available on our website.

I'd also like to remind you that today's conference call is being webcast live over the Internet and will be available for replay on our website for 1 year, along with the earnings release filed with the SEC earlier today.

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

Bernie Blegen

Thanks, Gen.

MPS' first quarter revenue of $451.1 million came in about as expected, 19.4% higher than the first quarter of 2022 or 1.9% lower than revenue reported in the fourth quarter of 2022. Our results for the quarter were mixed with weaker quarter-to-quarter demand in our Enterprise Data and Industrial markets, overshadowing improvements in Consumer and Automotive.

Let's take a quick look at our first quarter 2023 revenue by market.

First quarter 2023 Consumer revenue of $63.4 million increased 19.5% from the fourth quarter of 2022. First quarter 2023 revenue was down 20.8% year-over-year. Consumer revenue represented 14.0% of our first quarter 2023 revenue compared with a 21.2% contribution in the first quarter of 2022.

First quarter 2023 Automotive revenue of $105.3 million increased $8.0 million or 8.2% from the fourth quarter of 2022. This sequential revenue increase was primarily due to continued acceptance of our highly integrated solutions for advanced driver assistance systems, the digital cockpit and lighting applications. First quarter 2023 revenue was up 93.1% year-over-year. Automotive revenue represented 23.3% of MPS' first quarter 2023 revenue compared with 14.4% in the first quarter of 2022.

First quarter 2023 Communications revenue of $67.9 million rose $3.6 million or 5.6% from the fourth quarter of 2022. This quarter-over-quarter increase primarily reflected a modest revenue improvement in 5G infrastructure. First quarter 2023 revenue was up 22.2% year-over-year. Communications revenue represented 15.1% of MPS' first quarter 2023 revenue compared with 14.7% in the first quarter of 2022.

In our Storage and Computing market, first quarter 2023 revenue of $119.8 million was essentially flat with revenue recorded in the fourth quarter of 2022, as declining storage revenue was offset by higher notebook sales. First quarter 2023 revenue was up 24.1% year-over-year. Storage and Computing revenue represented 26.6% of MPS' first quarter 2023 revenue compared with 25.6% in the first quarter of 2022.

First quarter 2023 Industrial revenue of $47.5 million decreased $8.6 million or 15.3% from the fourth quarter of 2022. This quarter-over-quarter decrease was due to lower security and power source revenue. First quarter 2023 Industrial revenue was down 2.2% year-over-year. Industrial revenue represented 10.5% of our first quarter 2023 revenue compared with 12.9% in the first quarter of 2022.

In Enterprise Data, first quarter 2023 revenue of $47.2 million decreased $21.3 million or 31.1% from the fourth quarter of 2022 due to broad-based weakness in data center spending. First quarter 2023 revenue was up 10.9% year-over-year. Enterprise data revenue represented 10.5% of MPS' first quarter 2023 revenue compared with 11.2% in the first quarter of 2022.

I'd like to share some general business observations.

During our two most recent earnings calls, we highlighted that customers were becoming more concerned with near-term business conditions and that ordering patterns might oscillate. This behavior continued through the first quarter of 2023. However, we do see order acceleration for products related to artificial intelligence, autonomous driving, and power modules, and our customer engagement and design win momentum remains strong across all of our markets.

Regarding operating expenses, we continue to invest in our operations to support long-term growth. In response to customer concerns, we are expanding and geographically diversifying both our global production, operations and our R&D activities.

In summary, we have strong customer engagement, design win momentum and are continuing to invest for the long term, even though timing of the revenue ramp from our customers remains uncertain.

Moving now to a few comments on gross margin.

GAAP gross margin was 57.4% and 80 basis points lower than the fourth quarter of 2022 and 60 basis points lower than the first quarter of 2022. Our GAAP operating income was $124.3 million compared with $136.9 million reported in the fourth quarter of 2022.

For the first quarter of 2023, non-GAAP gross margin was 57.7%, 80 basis points lower than the fourth quarter of 2022 and 60 basis points lower than the first quarter of 2022. This downward pressure on gross margin is expected to continue near term as we work through higher value inventory built up during the supply-demand imbalance following the pandemic.

Our non-GAAP operating income was $164.1 million compared to $174.1 million reported in the fourth quarter of 2022.

Let's review our operating expenses. Our GAAP operating expenses were $134.5 million in the first quarter of 2023 compared with $130.9 million in the fourth quarter of 2022.

Our non-GAAP first quarter 2023 operating expenses were $96.0 million up from $94.8 million reported in the fourth quarter of 2022.

The differences between GAAP and non-GAAP operating expenses for the quarters discussed here are primarily stock compensation expense and income or loss from an unfunded deferred compensation plan.

For the first quarter of 2023, total stock compensation expense, including approximately $1.1 million charge to cost of goods sold, was $37.0 million compared to $35.3 million reported in the fourth quarter of 2022.

Switching to the bottom line. First quarter 2023 GAAP net income was $109.8 million or $2.26 per fully diluted share compared with $119.1 million or $2.45 per fully diluted share in the fourth quarter of 2022.

First quarter 2023 non-GAAP net income was $146 million or $3.00 per fully diluted share compared with $154 million or $3.17 per fully diluted share in the fourth quarter of 2022. Fully diluted shares outstanding at the end of Q1 2023 were 48.7 million.

Now let's look at the balance sheet.

Cash, cash equivalents and investments were $919.1 million at the end of the first quarter of 2023 compared to $739.6 million at the end of the fourth quarter of 2022. For the quarter, MPS generated operating cash flow of about $218.8 million compared with operating cash flow of $52.2 million in the fourth quarter of 2022.

First quarter 2023 capital spending totaled $8.9 million.

Accounts receivable ended the first quarter of 2023 at $184.3 million or 37 days of sales outstanding, up 1 day from 36 days at the end of the fourth quarter of 2022.

Our internal inventories at the end of the first quarter of 2023 were $430.8 million, down from $447.3 million at the end of the fourth quarter of 2022. Days of inventory decreased to 204 days at the end of Q1 2023 compared with 212 days at the end of fourth quarter of 2022.

Comparing current inventory levels with the following quarter's projected revenue, you can see days of inventory decreased to 203 days at the end of the first quarter of 2023, from 212 days at the end of the fourth quarter of 2022.

I would now like to turn to our outlook for the second quarter of 2023.

We are forecasting Q2 revenue in the range of $430 million to $450 million.

We also expect the following: GAAP gross margin in the range of 55.9% to 56.5%. Non-GAAP gross margin in the range of 56.2% to 56.8%.

GAAP R&D and SG&A expenses between $132.5 million and $136.5 million. Non-GAAP R&D and SG&A expenses to be in the range of $94.9 million to $96.9 million. This estimate excludes stock compensation expense, but includes litigation expense.

Total stock-based compensation expense of $38.8 million to $40.8 million, including approximately $1.2 million that would be charged to cost of goods sold.

Interest and other income is expected to range from $3.8 million to $4.2 million before foreign exchange gains or losses.

Fully diluted shares to be in the range of 48.6 million to 49.0 million shares.

In conclusion:

While we remain cautious about near-term business conditions, MPS will continue to focus on business development and investing in infrastructure as necessary to support our long-term growth.

I'll now open the webinar up for questions.

Genevieve Cunningham

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

Tore Svanberg

Yes, thank you. I was hoping you could elaborate a little bit more, Bernie, on your comment about the business conditions. Because it sounds like the design win momentum is still very strong. The activity is very strong, but you also sort of added there was uncertainty in certain ramps. So maybe you could elaborate a little bit on that, especially when thinking about the second half which seems to be a period where the industry could potentially recover.

Michael Hsing

Let me answer my -- Tore, let me ask first, okay. And -- so you look at all these industries, okay, we -- it's servers and computing, including industrial servers and AI product, that's about 10% of the MPS revenue. And we had a hyper -- we experienced this area really the -- all the entire companies experienced hyper growth, okay, in the last 2 or 3 years. And now the automotive to, we're about 23% of our business. Total together and where it's about a 30-some percent. In AI other than, okay -- across the board, other than AI and automotive and so far, still we experienced still very heavy demand.

Other than that, again, all these design win activities that happened in the last 4, 5 years, and they started to ramp last couple of years. And a lot of -- because the reason we have all the inventory, we have expanded capacities and we grow much faster than the average. And now to answer your question directly, the -- our customers, all these products during a ramp, they have a pause. And they don't know what's coming and the new product and they push out. And so we just cutting in the period, which is not bad to me. Because in the last 2 or 3 years, we -- we have been in this unsustainable growth and hyper growth, it's like a 30%, 40% year-over-year, and that will break the company and I'm glad to announce we're, okay, coming to -- back to the normal I mean, and we will ride this the global market uncertainties and we just adapt as in the past. Okay, Bernie, maybe you can add some more detail, okay.

Bernie Blegen

And I think Michael has really laid out a very compelling case as far as the growth that we've experienced over the last 3 years, and also identifying that the automotive market remains solidly intact, but particularly in Enterprise Data with the exception of AI that we are seeing lag in ordering patterns there and general weakness in our other markets. So I think the thing to reinforce here is that the business model here remains intact. We've built MPS around sustainable growth over the long haul.

And right now, we're looking at a quarter where the end customer demand is not picking up as well as we might have anticipated a quarter or 2 quarters ago. But again, the business model is intact.

Tore Svanberg

That's great perspective. And as my follow-up, you talked about gross margin coming down very moderately because of higher value inventory. Could you talk about how long you expect that to play out and even some ranges? I mean, I assume maybe you'll get to, I don't know, 55%, 56% gross margin. But yes, any color you can give on the -- how long that lower gross margin would last?

Bernie Blegen

Sure. And the good news here is that cycle times and pricing both in the fab, the assembly houses are coming down. And so we'll be able to participate in the lower cost after we burn down the inventory, which is currently at about 203, 204 days. So I would expect that we'll see a downward pressure on margins through Q2 and Q3, and then perhaps a moderation leveling in around Q4.

Tore Svanberg

Yes. Go ahead, Michael.

Michael Hsing

Yes. I might as well add, clearly, we see -- we go into a downturn situation and --and -- we don't know, I guess, some segment will grow in MPS because of very diverse companies and some area would be still good. And in general, the consumers and they get products and even some notebook may come back in the second year. And the point is I'll try to make is regarding to gross margins, and as you know in the past, when the industry starts to slow down, and again, MPS will be more aggressive in price. And to gain more consumer segment of the market because it can do 6 months later, when you turn the knob, we actively pursue those products 6 months later, those are fast design cycles, and you will turn the knob in the revenues in about 6 months' time. So we care less about the short-term gross margins, but the long-term gross margins is still the same. So we emphasize and as you know, in the last 10 years or so, and we'll still pursue those models. And in the consumer segment, we may -- we made just a short -- focus on in the short term to grow the -- to maintain the growth.

Tore Svanberg

Makes sense to me. 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 I wanted to follow up on Tore's question. Really, Michael and Bernie, as you look into the second half of the year, that's normally a seasonally stronger period for the company. Obviously, it feels like there are lots of puts and takes, lots of uncertainty, customers delaying product ramps. But can you give us any sense how you're thinking about the second half of the year? Will you see sort of a normal seasonal uptick in September? Or are you thinking September could be flattish with kind of the 1Q, 2Q run rate? Any additional color would be helpful just to try, you know, to think about the second half.

Bernie Blegen

Sure. I think that right now, normal seasonality still applies, but in our case, it's a little more muted because so much of our growth in the business is attached to those new product introductions being made by our customers. So if we look in Enterprise Data in which our major customers or the products that we're supporting have had product delays. And when you look at other aspects of our business, for example, Communications, that's still what I'd refer to as lumpy. It's not necessarily trending in a seasonal pattern. So I think that your comment is very balanced and all I'm tilting is to the new product introductions being delayed probably being a larger factor than just seasonality.

Michael Hsing

Yeah. I think we can't say really like a normal seasonality anymore. I mean we -- we experienced in the past. And you have some segments that grow really well. I mean some segments hit kind of a bottom that came last Q3, last year, Q4, especially like a notebook side. I mean now you see okay, it's a waking up. I mean, MPS has won orders in design as those reference designs and we have the power -- the power solutions -- and we see, second half, mostly all the other reservoir business, other than AI, automotive, we don't -- we have no clear views. And so that's the short term.

Quinn Bolton

Understood. I wanted to follow up on the Enterprise Data segment. Obviously, a weaker result and sounds like some of the product or customer delays are sort of focused in that segment. Do you still think as the new server cycle ramps that you can get your share of the VCore power management market towards 20 percentage? Is that still the right opportunity to be thinking about longer term, even if some of those customer programs have pushed out by somewhat?

Michael Hsing

Absolutely. I confidently say that. I mean, because we see all these projects has not really fully ramped yet. In all the data centers, clearly, you guys know better, I mean now slowed down dramatically. I don't know whether they overexpanded last couple of years and now slowed, take a pause, okay? We don't have clear views. And what we know from last quarter to Q1 -- or Q4, Q1 to now, and they kind of slowed down.

Bernie Blegen

And if I can add to that, again, using -- I know that you're focused right now on the short term as far as the second half of the year. But in the GPU space for artificial intelligence, we have a very senior market share position. And as we look ahead to even the next generation, we're in a very good position to take advantage of the next generation of GPUs. So we're really still in early stages as far as being able to leverage up our position and expand our share.

Michael Hsing

Oh yeah, yeah , yeah. That's I didn't add that part. The GPU part came in the AI side, we have a current design win and as well as the next design, and the futures we will release end of the year or next year. And those were MPS product will ramp to this. Earlier, I referred to is that all these data centers, CPU powers or data center power overall, and we still have maybe just -- if it's not a single digit, just barely double-digit market shares. And a lot of -- and from a transition from a VR13 to 14, and it's not completed yet. We won a lot of design wins in VR14 and it will turn into revenues.

Quinn Bolton

Thanks for all the color Michael and Bernie

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. Guys, I wanted to ask, I guess, a two part question on gross margin, and this is sort of -- you guys have been in -- gone from sort of 54, 55, 56 on that steady cadence of 10 to 20 basis points a quarter, and that was amazingly steady. And then during the period of supply-demand imbalance, we jumped up to 58 or so, and now we've come back in and you guys discussed that in the short term. But as you look out over the next 2, 3 years and you think about the strategy to be aggressive and grow, and contrast that to some of the opportunities that you have for new design wins and higher content, maybe you could level set us on the long-term gross margin. Has anything changed there? And where is the new normal?

And I guess the second part of that thought, guys, is that, have you seen any specific price pressure in any markets as some of your competitors maybe get more supply?

Michael Hsing

Yes. Okay. Let me answer your last part first, okay. Any high volume, our customers have multiple suppliers, we -- they always have a price pressure, other than the last 2 or 3 years. Other than that, they couldn't ship, only the MPS came. Most of the companies have struggled in shipments and MPS, we have less. And so nowadays I mean all the higher volumes as we expected, and in the last couple of years, and I can also remember, we didn't talk that much. We introduced new technology, which is a much lower cost. And there will be a fight.

And so to answer that part of the question. But earlier, I said it, I care less about our gross margin lately, but we're still operating within the model. We're not dramatically go down. Clearly, it will go down. And but -- in a long-term model, to answer your question, 2 or 3 years out, the business -- MPS business is still, is still pretty much intact. And we are focused on those high values. We transition from IC solutions to sell solutions. That still remains our focus. Our long-term business we will go that way and which generate and offers more values, and we have higher-higher gross margins.

Bernie Blegen

And I think just to polish off the comment there is that as far as our model, we've been operating over the last several years between 55% and approaching 60% as far as a non-GAAP gross margin. And as we introduce these higher-value products, they tend to have higher margins. And what that allows us to do is then manage the mix of business such that we stay within our model. So while we sort of anticipated in the near term downward pressure with a flattening here in the next 3 to 4 quarters, we'll continue to look to be opportunistic and managing gross margin to accelerate revenue growth.

Matt Ramsay

Got it. Thank you for all the detail there guys. As my follow-up, and I apologize for this being a near-term question, but with all the different end market volatility. Bernie, if you could help us on your guidance by segment, just the revenue trends that you guys see into the June quarter, that would be great. Thank you guys.

Bernie Blegen

Sure. I think that we said earlier in the call...

Michael Hsing

It's fair to ask a short-term question because this is a very uncertain period.

Bernie Blegen

So I think to sort of make a simple point on it is that automotive continues to be doing, you know, very well. And there, it's both the market itself as well as the share gains that we're enjoying. I said earlier that Communications is lumpy and the other areas, including Storage and Compute, Enterprise Data and Consumer and Industrial are sort of flattish for the near term.

Michael Hsing

Yeah. Well, also the storage -- in the AI segment in the -- in data center, if we -- the computing segment is maybe is flattish, okay? I mean I think the majority of our revenues has come from -- still come from servers. And you see it in the ramping in the last 18 months or so. In the AI and the total -- AI in the total revenues is still a smaller percentage. And the other thing I'm pointing out, there's a memory sections. I mean they're changing a new format, and they start to ramp now. This is the result that we're kind of flattish, okay? I mean it depends on how fast you ramp up to DDR5. MPS has -- have engaged with all the major memory companies that we have a design. We have a -- we have design wins. And if they ramp up faster then we will -- we'll increase that portion of revenues. And it's depending on what the DDR5 will ramp up. Ok yeah, Matt you still there. Oh, we lost him.

Genevieve Cunningham

Our next question is going to be from Rick Schafer of Oppenheimer. Rick, your line is now open.

Rick Schafer

Oh thanks. I appreciate all the color so far. Maybe if I could ask one on 48-volt before we go back on the AI for the question. I know you heard you say Michael or Bernie said it, I think you had said senior market share position there. I'm curious with your primary competitor in 48-volt apparently still struggling. I mean are we at a point now, if we look at 2023, where you guys think you'll likely stay sort of sole source sort of on the A and H100 this year. And I'm just curious as part of that question. I heard you mention content there, so is there any color you can give us around what content does as we transition to sort of more powerful accelerators over time? I mean is it similar to what you guys have talked about with the move from VR13 to 14 on VCore Power, where you're talking about going from sort of $50 of content or something like $70. And then finally, Michael, for you, I'm just really curious, are you -- who else are you seeing out there working on 48-volt power? This seems to be a pretty solid and growing market.

Michael Hsing

Okay. Let me answer my part first, and I'll get in...

Bernie Blegen

That's the more fun part.

Michael Hsing

On the landscape is okay, I truly okay, says we don't -- we see some competitions. I think our products remain the best so far. And so that's why we have -- and we do see some other competition, maybe as a generation of later that came in. As that market segment grows, and the competition will come. I mean the market is too big for MPS. And we welcome other people. And we welcome the corporations. As a matter of fact, that's what we're doing and not, okay? And -- as MPS is not big enough for that market. And -- but we will be glad to be leaders.

Bernie Blegen

Yes. And again, reinforcing Michael's point there is that it actually when we enjoy a leadership position, and we expect to continue to. Competition is very important as far as driving technology improvements. As far as your other question, as far as dollar content, when we look at the CPU market, generally, we denominate it with a dual processor, -- and so based on that, we're able to offer an expectation of what the average selling price will be per server. With the GPU, it is still sorting itself out where you can have any number of configurations up to and including 8 GPU boards. So it's very -- it's a little harder to denominate what our dollar content is. And again, we're still in the early stages of watching this model ramp. So I think that we'll have enough experience in about 2 to 3 quarters to have a more accurate read on the dollar content, but it is much higher than what we're experiencing with CPUs.

Rick Schafer

Thanks for all that color guys. And for my follow-up, I'd love to ask you about 5G RAN. I know you guys have said in the past you're selling to the big 3 RAN equipment OEMs. I'm just curious how you would describe the ramp there in terms of content, in terms of share? And what I am trying to do is get a sense of how big 5G is now versus how big it could be for you guys. And to something you mentioned earlier, Bernie, I'm just really curious here, could the ramp in 5G sort of smooth some of that lumpiness you described in your comm segment? Thanks.

Bernie Blegen

Yes. If I was to draw a comparison of our experience with Enterprise Data where we started out with low dollar content and then graduated up the value chain including power management. We're probably about 3 to 4 years behind in the Communications market, where we're still focusing on low dollar content for point of load and e fuse. Now where this is about to get very exciting is we are getting adoptions for later designs that include our power management for the processors. So at this stage, we're sort of moving with the market. Again, as an early entrant. But yes, long term, I do think you're going to see a similar growth profile as what we expect to have with enterprise data.

Michael Hsing

Yes, and immediately now, I keep saying MPS is a small company, but we're not nobody anymore. And we engage with all these customers -- these 5G makers and it's only a handful of a companies as speaking now. So we're in the process of signing on the contract now. And so all of these -- okay, and it's just a matter of time.

Rick Schafer

Thanks for the color.

Genevieve Cunningham

Our next question is from Ross Seymore of Deutsche Bank.

Ross Seymore

Can you hear me?

Michael Hsing

We have a high inventory, yes.

Ross Seymore

How about the channel inventory. We've heard a bunch of companies talk about the channel coming down, and that's a headwind to revenue growth. I know you guys proactively manage that. So, you put it on your own balance sheet, but what's the channel looking like?

Michael Hsing

It's also on the high side.

Bernie Blegen

Yes. About 3 quarters ago, we saw an increase in channel inventories, and they've remained at about that same level. So, there isn't any real new news as far as the sell-through characteristics.

Ross Seymore

Is that something that's weighing against your revenue right now? Or are you comfortable running at that relatively higher level?

Michael Hsing

No, we want to go lower and we want to lower and particularly in the first quarters and a lot of customer threatens and get much higher volumes, okay? That's why we shipped and now they have a break. And so as a result, inventory didn't decrease that much in the channel.

Ross Seymore

So it went down on your books more so than in the channel?

Bernie Blegen

Yes. The way to look at another aspect to this is that the inventory in the channel, it depends on what our end customers' lead times are. And as we even commented on in the prepared comments, we're seeing a very unusual demand pattern in that we have 3 areas where we're seeing an acceleration as far as the ordering pattern. But they're doing it with a very -- an expectation of having a very short lead time.

So as Michael said earlier, that the channel is built up in the anticipation that the customers were going to realize the sales gains with the new products, but as those have been pushed out, that's left us in this position. So we're going to continue to manage the channel as we always have. But right now, as I said, it's at an elevated level.

Ross Seymore

Got it. And then 1 on the gross margin for you, Bernie. When you talked about the headwinds for it, we see this across the board. So I don't think it's anything particularly different for Monolithic. But the 1 thing you didn't mention was mix. I get that you're carrying higher cost inventory, and it takes a while to flush through. But as you go opportunistically, into the consumer market, is that rising as a percentage of sales, something that is also weighing against gross margins? And if so, when do you think that will kind of normalize as a percentage of sales, if not decrease?

Michael Hsing

Yes, you can see as a normal because the consumer market hasn't happened yet. We reduced -- we downed to the big percentage now, okay? And mostly it's a high-value inventory.

Genevieve Cunningham

Our next question is from William Stein of Truist.

William Stein

Regarding something you just spoke about a moment ago, you spoke about elevated inventory and push outs of projects. I think obsolescence risk is relatively small for Monolithic, but maybe you can reassure us on that matter.

Bernie Blegen

Absolutely. Actually, a very helpful question. If you look at our history, we've never had a significant inventory write-off. And a lot of the reasons around that is that our products have long life in the market and long shelf life. So we're actually -- if you look back at 2019, we built up inventories, and we're able to capitalize when the market bounced back in '20 and particularly when the pandemic, infusion of capital occurred.

So we don't see inventory on our balance sheet as a negative. And in fact, when the markets do get more stabilized, particularly in Enterprise Data and in Storage and Computing, I think we're well positioned to take advantage of that uplift.

William Stein

Great. And then like to sort of ask a double question about supply and your supply base. Other analog companies have talked about how their foundries are absolutely not cutting cost and they never see it happening, but you've highlighted this trend in your business. Is it because you're on more advanced nodes and so that's just how sort of pricing in that market works? And then maybe you could also comment on the manufacturing plan, both in terms of long-term capacity and geographic diversity.

Michael Hsing

Yes. We -- you know that, okay, we advance our technology every 2 or 3 years. And we're relentlessly cutting the cost and utilize the better technologies, get better geometries. The fab now in the last 3 years, the fab costs is not lower, higher, as a matter of fact. But we utilized the geometries and also the new technology that we implement, we will be able to lower the cost.

And so the other -- the other question that you're making is a diversified manufacturing. So, we in -- we anticipated that, again, we announced that we have a new partnership outside of China. That's in Singapore. And we will continue to do so. But really outside, there's no U.S. manufacturing for our application, for our product. I mean, it's all resides in Asia, Korea, like Taiwan and Southeast Asia. And in all our module business, we can do it from our side outside of China.

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

I'd like to thank you all for joining us for this Q1 2023 earnings webinar. I look forward to talking to you again during our second quarter conference call, which would likely be in July. Thank you. Have a nice day.