Monolithic Power Systems, Inc. (NASDAQ:MPWR)
Q1 2022 Earnings Call Transcript
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Company Participants:

Genevieve Cunningham - *Marketing Communications Manager*

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

Analysts:

Alex Vecchi - *William Blair*

Matthew Ramsay - *Cowen and Company, LLC, Research Division*

Quinn Bolton - *Needham & Company, LLC*

William Stein - *Truist Securities, Inc.*

Rick Schafer – *Oppenheimer & Co, Inc.*

Chris Caso - *Raymond James*

Tore Svanberg - *Stifel, Nicolaus & Company, Incorporated*

Ross Seymore - *Deutsche Bank AG*

Hans Mosesmann - *Rosenblatt Securities*

John Vihn – *Key Banc*

Genevieve Cunningham

Welcome, everyone, to the MPS First Quarter 2022 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, 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 risks 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 25, 2022, 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 2022 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.

Bernie Blegen

Thanks, Gen. MPS posted record first quarter revenue of $377.7 million, 48.4% higher than the first quarter of 2021. The year-over-year revenue increase represented strength in the overall market and more importantly broad-based market share gains, resulting from customer acceptance of our new product introductions.

Before looking at our revenue by market, I would like to call your attention to a change in our reporting. In order to provide increased visibility on data center and cloud computing revenue, a growth reporting for computer and storage to get 2 separate line items. The table has been included in this webinar showing the company's quarterly revenue on this basis since 2017.

The first line item is called storage and computing, which primarily refers to total storage and client computing revenue.

The second line item is called enterprise data, which captures revenue from data center and product.

In our storage and computing market, first quarter 2022 revenue of $96.6 million increased $18.6 million or 23.9% from the fourth quarter of 2021 due primarily to higher storage and commercial notebook sales. Storage and computing revenue represented 25.6% of MPS' first quarter 2022 revenue compared with 20.2% in the first quarter of 2021.

In our enterprise data market, first quarter 2022 revenue of $42.5 million increased 5.0% in the fourth quarter of 2021 due primarily to continuing strength in data center and workstation computing sales. Enterprise data revenue represented 11.3% of MPS' first quarter 2022 revenue compared with 6.4% in the first quarter of 2021.

First quarter 2022 communications revenue of $55.6 million rose $9.7 million or 21.1% for the fourth quarter of 2021. The quarter-over-quarter increase primarily reflected higher revenue related to 5G build-outs and satellite communications. Communications revenue represented 14.7% of MPS' first quarter 2022 revenue compared with 14.2% in the first quarter of 2021.

First quarter 2022 revenue from consumer markets of $80.0 million increased $13.6 million or 20.6% from the fourth quarter of 2021. This sequential quarterly revenue increase reflected a broad-based increase particularly related to our IoT business. Consumer revenue represented 21.2% of our Q1 revenue compared with a 26.0% contribution in the first quarter of 2021.

First quarter 2022 automotive revenue of $54.5 million decreased 3.2% from the fourth quarter of 2021. Automotive revenue represented 14.4% of MPS' first quarter 2022 revenue compared with 17.6% in the previous year.

In our industrial market, revenue of $48.5 million was essentially flat with revenue recorded in the fourth quarter of 2021. Industrial revenue represented 12.8% of our first quarter revenue compared with 15.6% in the prior year.

Moving now to a few comments on gross margin.

GAAP gross margin was 57.9%, 30 basis points higher than the fourth quarter of 2021 and 250 basis points higher than the first quarter of 2021. Our GAAP operating income was $96.1 million compared with $78.6 million reported in the fourth quarter of 2021.

For the first quarter of 2022, non-GAAP gross margin was 58.3%, 40 basis points better than the fourth quarter of 2021 and 250 basis points better than the first quarter of 2021. Our non-GAAP operating income was $133.6 million compared to $112.0 million reported in the fourth quarter of 2021.

On both a GAAP and a non-GAAP basis, the sequential quarterly gross margin improvement was primarily due to a better product mix as revenue from higher value, new product introductions is ramping.

Let's review our operating expenses.

Our GAAP operating expenses were $122.7 million in the first quarter of 2022 compared with $115.3 million in the fourth quarter of 2021.

Our non-GAAP first quarter 2022 operating expenses were $86.6 million, up from $83.0 million reported in the fourth quarter of 2021.

The differences between non-GAAP operating expenses and GAAP operating expenses for the quarters discussed here are stock compensation expense, amortization of purchased intangibles and income or loss on an unfunded deferred compensation plan.

For the first quarter of 2022, compensation expense, including approximately $1.3 million charged to cost of goods sold was $39.8 million compared with $31.2 million reported in the fourth quarter of 2021.

Switching to bottom line.

First quarter 2022 GAAP net income was $79.6 million or $1.65 per fully diluted share compared to $72.7 million or $1.51 per share in the fourth quarter of 2021.

First quarter 2022 non-GAAP net income was $118.3 million or $2.45 per fully diluted share compared with $102.1 million or $2.12 per fully diluted share in the fourth quarter of 2021. Fully diluted shares outstanding at the end of Q1 2022 were 48.2 million.

Let's look of the balance sheet.

Cash, cash equivalents and investments were $775.1 million at the end of the first quarter of 2022 compared to $727.5 million at the end of the fourth quarter of 2021. For the quarter, MPS generated operating cash flow of about $107.4 million compared with operating cash flow of $28.2 million in the fourth quarter of 2021. First quarter 2022 capital spending totaled $26.5 million.

Accounts receivable ended the first quarter of 2022 at $120.3 million or 29 days of sales outstanding, up 1 day from 28 days at the end of the fourth quarter of 2021.

Our internal inventories at the end of the first quarter of 2020 were $311.0 million, up from the $259.4 million at the end of the fourth quarter of 2021. Days of inventory increased to 178 days at the end of Q1 2022 compared with 166 days at the end of the fourth quarter of 2021.

Historically, we calculated days inventory on hand as a function of current quarter revenue. We believe comparing current inventory levels with the following quarter's projected revenue provides a better economic match. On this basis, again, as you can see, days of inventory increased to 159 days at the end of the first quarter of 2022, up from 149 days at the end of the fourth quarter of 2021.

I would now like to turn to our outlook for the second quarter of 2022.

We are forecasting Q2 revenue in the range of $420 million to $440 million.

We also expect the following –

GAAP gross margin in the range of 58.4% to 59.4%

Non-GAAP gross margin in the range of 58.7% to 59.3%

GAAP R&D and SG&A expenses between $132.7 million and $136.7 million

Non-GAAP R&D and SG&A expenses to be in the range of $90.0 million to $92.0 million. This estimate excludes stock compensation and litigation expenses

Total stock-based compensation expense of $44.2 million to $46.2 million, including approximately $1.5 million that would be charged to cost of goods sold

Litigation expenses ranging between $2.3 million and $2.7 million

Interest and other income is expected to range from $1.3 million to $1.7 million before foreign exchange gains or losses

Fully diluted shares to be in the range of 47.8 million to 48.8 million shares

In conclusion, we will continue to execute on our long-term plan for sustainable growth.

I will now open the webinar up for questions.

Question-and-Answer Session

A - Genevieve Cunningham

Thank you, Bernie, analysts. I would now like to begin our Q&A session. [Operator Instructions]. Our first question is from Ross Seymore of Deutsche Bank.

Bernie Blegen

Ross is not there. Perhaps we can move on.

Genevieve Cunningham

Our next question is from Alex Vechhi of William Blair.

Alex Vecchi

Congratulations on a great quarter in a tough environment. Maybe you can address a little bit the supply constraints and some of the China COVID impact. It seems like you guys came out from that completely unscathed, I’d be interested in some of the dynamics that's allowed you to do that.

Michael Hsing

Well, Alex, we plan this kind of ramp not from last year from -- not from this year last year, many years ago. And as you remember, in 2017, even '16, we said that we're going to on greenfield products will grow and exactly we don't know at plus or minus a year or so. And so we plan every aspect, including logistics and staff, assembly house and our internal testing. And this is not a 1-year thing. We planned a long time ago. And now when the revenues is a little better than we anticipated. And so that's where you see the result.

Bernie Blegen

And if I can add to that, we've also built inventories so that in 178 days, we're just at the lower end of our goal of being between 180 and 200 days, which provides us a good insurance policy as we look ahead to achieving our numbers for the second half of the year.

Michael Hsing

Yes, even the end of the second half of 2019 in -- the business is not as great, but we built according to our plan, and we know the business will come. Our -- at that time, I remember, our inventory is over 200 days. And that part of it, inventories made us -- our customers feel a lot more long more reliable, like MPS as a major player.

Alex Vecchi

Okay. That's really helpful. And then maybe one for you, Bernie, just on gross margin. Margins have been very strong, as I believe. You've alluded to product mix. Just on that front, how much more runway do you think you have on the gross margin front from the uplift on sort of your new products going forward?

Bernie Blegen

Sure. As you've seen both in the results that we had for Q1, along with our guidance for Q2, which positions us around 59% gross margin, I think we've done a fair job of -- digesting is the incorrect word, but acknowledging the uplift in our margins as a result of our product mix. So again, I'll give the same answer I did last time that we believe that we've created a new floor on gross margins which we can expand 10 to 20 basis points sequentially. But again, if opportunistically, we see a back set, which allows us to take it up another, we will be happy to take that.

I want to emphasize that, well, most of our peer companies have benefited both in terms of revenue growth and margin expansion from price increases, Ours has been driven primarily by the change in revenue mix, which is favoring these higher-value products. And it was only in February of this year we did a broad-based increase of our prices but that was still far below what the market has seen.

Michael Hsing

Just a pass on the cost to our customers. And as the margin expansion for our case, we said earlier, okay, setting in 2017 or '18, we don't have a headwind in -- by 2019 the, market slowed down a little bit and we built up a lot of some amortizations that -- in a production pipeline. So our margin went slightly lower, but it's not much lower. And now and you see this margin continued to grow.

Genevieve Cunningham

Our next question is from Matt Ramsay of Cowen.

Matthew Ramsay

Can you guys hear me all right?

Michael Hsing

Yes.

Matthew Ramsay

Michael, I guess, for either one of you guys, it was interesting that you're breaking out sort of the data center piece from the PC and storage business. And I guess I wonder a couple of things about that, like what may be you our guys are trying to signal by breaking those out separately, in particular the new enterprise data segment is up, I don't know, 160% year-over-year, but that's really before the 2 primary server processor vendors launched with new sockets this year. So Michael, could you maybe talk a little bit about the reason for breaking that out and the relative growth rates you guys expect of these 2 new segments as we go forward?

Michael Hsing

If you combine all together, it's a kind of -- we're going to answer -- in the past, we answered those questions anyway and -- but when we reported on some numbers, and so which is more clear and publish you guys know it, have a less meaningful questions.. and, Bernie, any other reasons?

Bernie Blegen

I think, Matt, you did a good job of saying that this is clearly an inflection point for us, inflection year which will gain momentum as we see both Intel and AMD position for product releases are coming up here. So that, in addition to the expanding footprint we have in both 48-volt and artificial intelligence, we believe that this will be one of our areas for sustainable growth for certainly next 3 to 5 years. And exactly as Michael said, we believe that providing better transparency is definitely a better information for our investors.

Matthew Ramsay

Thanks to both for that. That's helpful. I guess if you look at the second quarter guidance that you provided, $430 million at the midpoint was quite a bit above where consensus was and certainly where my model was. Bernie, if you might take a second to walk us through by segment, how you're thinking about the growth being concentrated, that would be really helpful.

Bernie Blegen

I think that on a dollar or percent basis, we're going to see an accelerating ramp in enterprise, particularly during the second half of the year. I think we're going to see continued growth in our storage and computing albeit probably not at the same rate. Part of the reason for that is that storage tends to be a precursor at least from our experience to a data center ramp. So I think in each of the 2 prior quarters, we've seen a good, strong ramp in storage, and now we're expecting 2 to 3 quarters in the data center.

In the rest of the business, communications, as we said, we've broadened into not only 5G but also into satellite communications. And that's going to continue to be a driver for the foreseeable future. In the other areas, obviously, consumer, that is coming along, we emphasized Internet of Things but actually, the growth there is broad-based.

Genevieve Cunningham

Our next question is from Quinn Bolton of Needham.

Quinn Bolton

Let me offer my congratulations as well. I wanted to come back to Alex' question about China. Obviously, you source most of your assembly and wafer capacity in China. And I just -- given the zero COVID policy in China and some of the resulting lockdowns, are you rethinking the need to diversify outside of China either on the assembly and test or assembly and wafer foundry side? And then I guess, a related question, I think most of your final test takes place in Chengdu, have you any contingency plans in place in case Chengdu is put under lockdown due to COVID?

Michael Hsing

Yes. We started a couple of years ago. We already started doing so. And as you know that China and manufacturing in Asia is the center of the work, and we can't debate too much or not if they have a serious problems, I think everybody worry about it, even the bigger things. And yes -- the answer is yes, okay. We already started and establish in a different political environment.

Nathaniel Bolton

In Chengdu, Michael, do you have test capacity outside of Chengdu, if Chengdu goes under lockdown?

Michael Hsing

Yes. As we're starting to about a couple of years ago, but maybe it's a little more than 12 months ago, we're starting.

Bernie Blegen

With the testing capacity in Chengdu. We've concentrated that on some of our higher value parts including automotive. And now as Michael just said is now we've started transition where we can actually have third parties. So we actually have a built-in contingency plan.

Michael Hsing

Yes, outside Chengdu only, yes, we have -- other than these high reliability product in retesting in our side. And other than that, okay, we do pretty high volumes if it's about half of it. It's in a different facility. When I talk about -- I just mentioned about it is outside China.

Quinn Bolton

Got it. Okay. And then my follow-up question is around the internal inventory level that you guys have done an absolutely fantastic job of increasing that in a very tight supply environment. I guess my question is, as you're approaching now the low end of your target range of 180 to 200 days, can you tell us what's going on with lead times? I would think as internal inventories get up to your target level, that may give you the ability to start to reduce lead times to potentially gain even more market share. But wondering if you could give us a sense of what's going on with lead times given that increase in internal inventory levels.

Michael Hsing

Our lead time is in this quarter is the same as the last quarter. So probably even our booking even -- I don't see anything. The rate of our booking is now reduced and Bernie, you said.

Bernie Blegen

And you took my answer on both ones that lead times have remained very consistent each in the last 3 quarters. And again, what you're seeing as far as the build of inventories has been a very conscious and deliberate decision to build the inventories in advance, particularly on the enterprise side, to meet the demand we expect for the second half of the year. And then I think that we've done a good job of positioning ourselves under what has now become uncertain environment.

Genevieve Cunningham

Our next question is from William Stein of Truist.

William Stein

Congrats on the very strong results, especially the outlook. We understand though that while we see a great number overall, in particular for the guidance, there's always moving parts when we look at it on a more detailed level. And I wonder if you're seeing either perhaps owing to customers focusing on getting balanced kits or full sets or however you want to call it or if you're seeing anything related to Ukraine or the lockdowns in China, whether any of these factors is influencing either the order rates or the backlog. For example, if none of these things were happening, the outlook would have been even stronger. Any qualification you can provide us would be helpful.

Michael Hsing

Yes. Well, MPS is like selling jelly beans. And we are not a dominant application supply. We got something in a. -- I mean so whatever we ship is that these are the small part of the solutions. And so we don't know, okay? That's -- actually, that's our model. That's a billion. We don't know where these costs -- and so whether the wall effectiveness, okay, and we're very, very much diversified. We actually don't know it.

So the -- to answer your questions, I mean, only things, yes, we do know where the product was the data centers. The product if it goes to a car, mean these are we're pretty much not a lot where the product ended up, okay. And other than that, we don't.

Bernie Blegen

Just reinforcing the answer from before, there is no significant KPI, whether it's in the bookings or any other area of our business that we're seeing a change over the past 2, 3 quarters.

William Stein

Bernie, you've talked about various levels of revenue that you could achieve at full utilization. In other words, the capacity that you're building for. I know they started couple of years ago. Well, I'm sure it's ongoing really. But the capacity and the upside that we've seen over the last few quarters, of course, those were not planned very quickly. They were planned a long time ago. Can you remind us or maybe update us on the medium to long-term capacity planning that's in place today? What levels of total capacity we can expect over the next few quarters?

Michael Hsing

Yes. That's a good question. I think that we answered the questions in last quarter, okay, we said that we're going to play in the $4 billion of revenues in the next couple of years. And so that's what we do and we continue to invest.

Bernie Blegen

Yes. And I think just to sort of lend some credibility to that, you recall about a year ago, that we offer by the end of Q2, in 2022, that would be at a $2 billion run rate. And with the guide that we have provided and the expectations ahead, I think that's a milestone that backs up the amount of visibility in our supply chain. So right now, the goal as Michael said, $4 billion.

Michael Hsing

Yes. If the demand is there in this year, we will do it, yes. What will do $2 billion, as we said in a couple of years ago. And we continue to see the demand in, and we see the demand will be there. Okay. This is not a one -- a short term, okay, things. And if it does not happen that year, that will happen the year after.

Genevieve Cunningham

Our next question is from Rick Schafer of Oppenheimer.

Rick Schafer

I'll echo all the congratulations on other stellar quarter for you guys and outlook. If I could, my first question, I'm just kind of following up on the server breakout and obviously, a big ramp ahead for QSMod and cloud this year. I was curious kind of below that line a little bit, if there's any updates you could give us, like your 48 volt expectations this year or next?

And within that, I'm curious, I sort of assumed 48 volts virtually all AI accelerator for the next couple of years. But I'm curious when you see 48-volt sort of move into other areas like CPU or some broader markets like auto or industrial because I'm curious if you've looked at sort of what that 48-volt SAM looks like for MPS because it seems like an awful big opportunity.

Michael Hsing

Yes. 48 volts actually started in the automotive and also the silver and AI, okay, these CPUs. And for the 48 volts for the car, that's a different thing. but the same technologies. And also, we see these telecom areas, 48 volts, it's all standard and -- so now the 4Gs and the compliance with the 48 volts, again, we have a solution there. So there's a lot of areas we can grow.

Bernie Blegen

And I think that the 48 Volt, not only are we seeing the ramp, its adoption more broadly, but competitively, I would offer that we're very well positioned with some of the new technologies that we've rolled out and expect to roll out during the course of the next 18 months. So I think here again, we time our product releases pretty well with the inflection of this market opportunity.

Michael Hsing

Yes. And as we're talking with the product, the module is ramping, yes. So we provide -- we're providing whatever customer needs. We had a chip level on module level or solution levels.

Rick Schafer

Okay. And then maybe as my follow-up, just on 5G, I haven't asked the 5G question in a while. I mean you guys are engaged with the sort of the big 3 Tier 1 OEMs. And I just was curious if you can give us an update on your expectations. I know you flagged 5G here from 1Q results. So I'm curious what your expectations are for this year. And if there's any update you could give us on sort of how content compares with what you're seeing in server or data center and sort of how that ramp looks. And maybe if you could talk about how you quantify that opportunity in macro base station.

Bernie Blegen

The 5G is a relatively new market segment for us. So it's not like we can draw from our prior experience and calibrated up or down. We're sort of living a little hand to mouth on what demand looks like and how fast we're shipping. So we don't have a real good predictive model. What we talked to you about in the past has been that, again, we believe on a broad base, not only with as you referred to the top 3 but with a number of partners related to 5G infrastructure, we're providing content.

And while it's easy to look at the base station as a means of calculating out what the SAM is available to us. I think that we're also in fiber optic in the data center support for 5G as well as in the transceiver of the base station. And again, I think, as we pointed out, a lot of the initial technology that we're putting in is tending to be lower end and not necessarily specialized or adapted to 5G specifically.

So we don't have the same level of visibility on how it's being deployed, and we've used this strategy in the past with data center. We comment with lower dollar value content, build the relationships and then we're able to go to higher value content.

Michael Hsing

Let me say that we do have a custom design for each of the areas that Bernie said from fiber optics to all the single chain, all the way to transmitters. And we do have a customer design. And based on our standard product modules -- and these are the products. It's not really a low end. It can be, but these products can be used for any other telecom, which provide a building market, it provide power solutions for each of these blocks -- each of these categories. And we do see a lot of activity now in the revenues is ramping now.

Genevieve Cunningham

Our next question is from Chris Caso of Raymond James.

Chris Caso

I guess a question about the profile of revenue growth as we go through the year. And thus far, over the past several quarters, your revenue growth has been pretty broadly based, seeing growth in most segments. I know we've been speaking about and we've been anticipating for a while the server ramp as we get to the end of the year. But as we look through revenue in the next kind of 2, 3, 4 quarters, do you expect that revenue growth to continue to be broadly based, where you think this is going to be concentrated in any particular segments?

Michael Hsing

Well, the strategy is we're fired as many cylinders we can, okay? Whenever it grows, we grow, okay? And I think that's the strength among the diversifications. And in the next few quarters, we see the demand even for 2023 and '24, and these are pretty much similar, okay? We don't see that much of a difference.

And one thing we see it, okay, they -- we -- our customers demand more high-value product, which means they can easily adopt in ease of use and a much higher efficiency product and an energy using efficiency product. And so these are much better for us. Instead of our customer do lot development work, we do a lot of development work for our -- we develop the solution for our customers. So that means a higher dollar amount -- a higher dollar content. And so that's really we see that as only difference.

Christopher Caso

Got it. My follow-up question is about the impact of some of the China lockdowns and not from your production side but rather from your customer side. And what we heard from some others or at least one other is that part of the challenges in China right now are customers having facilities that are closed or that freight forwarders simply unwilling to accept product because of some of the logistics challenges that are going on right now. Is that something you're facing as well? And is there any impact on your revenue right now, which might mean some of those issues get solved, that some of that goes into the second half of the year?

Michael Hsing

Absolutely hit us. And don't get me wrong. Even though we grow this much, if we were not that problem, so we ship a whole lot more but we just have -- we anticipated that a little better. So we can still roll in our -- one of our models, can mean there's not much of our model. And for the portion is above our model, even a year, 2 years and again.

And on the other hand, in -- other than our logistics and production limitations, our customers, they have a mix, too. And clearly, you see the auto business. I mean we have less problem of shipping product than other suppliers. So -- and you can't speculate in okay, because of in limited or -- they are buying -- they're purchasing of our product and for because they miss other parts.

Bernie Blegen

And I think that we continue to be very resilient under a number of environmental circumstances. Part of that is the planning that we've set 3, 4 years ago, and some of it is how diversified long is and some of it is how adaptive we can be in the moment. So again, we did acknowledge the impact our customer supply chain affecting us, but I wouldn't say that, that is a pronounced element and we're continuing to monitor it.

Genevieve Cunningham

Our next question is from Tore Svanberg of Stifel Nicolaus.

Tore Svanberg

Congratulations on another record quarter, quite stunning. First question is on long-term growth. So you grew more than 40% last year. It looks like you're on track to grow another 40% this year at least. Michael, in the past, you've said there's no reason why you can't accelerate growth even though you have higher revenues.

Michael Hsing

You remember that. That's good.

Tore Svanberg

So I'm just trying to understand what you think about long-term growth at this point. Is 40% the right number? I know you're probably not going to commit to a number, but yes, anything you can add on that would be great.

Michael Hsing

Yes. Okay, as we have always said, okay, about a few minutes ago, I said that our customers even demands the more higher value product, can be in a solution kind of related products, not they wanted a low their engineering effort to MPS. And I see that opportunity is the opportunities for accelerated growth because think about it, if it's MPS, we don't make any and we're just only testing the final control -- quality control.

And that can apply to anything else. And I apply to models, apply tools okay, applied to any other solutions at all, but it's all related to power all related to OEM. And so from now on, you will see MPS, okay, we provide plug-and-play solution for all kind of robotics, for industrial automation and for building controls. And those type of product and -- which has a lot higher ASPs, we buy those components or we specify those components and we incorporate to our solutions. So the unit price will be much higher.

And now it's how fast we can put all these solutions together and turn it into a meaningful revenue. And that, I can't predict. And then you have that product, a lot of knowledges too. Now at the same time, MPS is a semiconductor chip business, keep growing. So I don't see in the near term in the next year or so. I don't see any slowdown, and it's actually accelerated.

And so to the other model is at the very infancies. And if you go 3 or 4, 5 years from now, I think as we will be real solution companies like silicon semiconductor is only a part of it out in the total content. So I want to grow more. I've seen more than $10 billion of companies, I mean $10 billion, $15 billion company, and there is no reason why not?

Tore Svanberg

That's great perspective, Michael. As my follow-up, I wasn't aware you had a lot of traction in the sat comm market. I was just hoping you could add a little bit more color there, what types of applications, what are some of the strengths the company has today in that market. And are you continuing to introduce new products? Because that's -- to me, it's obviously a very high-margin business, right, but it's also a very difficult market to crack into.

Michael Hsing

Yes. It's or committed to sell our communications and not only in the cell like self the grand station there's a huge amount. There's new standards, and again, there's a lot of new activities in that. And we designed it into a few years ago. And mostly, it's a power modules. And also, we have related to these in the cell and I mean this a controlled the solar panels and also a lot of power box. And I think the value in this is so -- this is everywhere, okay -- and these are for antenna to powering up the antenna to power the receivers and also all the way down to the user interface, and we all benefit from.

Tore Svanberg

Excellent. Very good. Congratulations again.

Michael Hsing

Thank you.

Bernie Blegen

Thanks.

Genevieve Cunningham

Our next question is from Ross Seymore of Deutsche Bank.

Ross Seymore

Can you guys hear me this time?

Michael Hsing

Yes, Ross, you're there.

Ross Seymore

I've been here the whole time. I'm glad that we got it to work. So I guess the first question is a longer-term one, then I'll follow up with a shorter-term one. Michael, you talked many times on tonight's call about moving up the value chain, adding more value. Customers want to use Monolithic for more and more. And in the past, that's going from kind of the second or third tier folks in various markets up to the first tier. So really what I want to get at is, are you seeing evidence of moving up to higher and higher value customers? And does the fact that you didn't raise prices as much as your peers and that you had availability, is that giving you longer-term design wins, higher value design wins? Anything you could do to quantify that dynamic?

Michael Hsing

I don't know how to qualify that, okay, because we don't -- we didn't really -- we didn't increase the price, okay, for those customers the first tier, the value the strategic customers because this prices are negotiated way before that. And we have the audit. And so we always said what we do. It's what we said what we do, okay? So we have to honor that.

And I think that also is a part of MPS branding and so that benefits the for long term. And for other high-value customers or high-value products and it's sporadic. This is the very beginning, a lot of customers don't even know or you offer these solutions but you offer that the entire solutions and -- so they don't even know that, okay. MPS is just starting to. And that actually relates to a few years ago, we said that we're going to do e-commerce, okay? We do e-commerce plug-and-play, programmable, all these things. And these are all related.

And so we do solar only for large customers, and I said we're a satellite company. We have the EV companies. We have a day 1 MPS, do a lot more or even the data centers and the demand of all these, we provide the entire unit. And they don't have to design it. So that's actually a across the board. I just named a few. But revenue is still small. We're starting.

Ross Seymore

And for my follow-up, a near-term question, Bernie, this could either be both revenues and/or the gross margin and your answer on this, and it's really about the mix. You've talked about the gross margin rising because of mix and new products being the driver of that. So if I look at the industrial and automotive businesses, the last couple of quarters, they're great year-over-year, but they've been flat to a little bit down sequentially for the last 6 months or so. Is there anything going on in that business? Is it just lumpiness? Is it waiting for some design wins?

And on the mix side of that equation for gross margin, I think most people believe those could be some of the more accretive areas. So how is the mix such a positive for your gross margin if the 2 areas that are supposed to be the highest margins are actually slightly underperforming the others?

Michael Hsing

Makes sense. That was good question.

Bernie Blegen

Let me reference what Michael said earlier. It's the power of our model of diversification of the end markets. And if you go back to the performance, the revenue performance that we demonstrated in industrial and automotive last year, they were leaders in our growth drivers. In the current year and reflected what's the health of the 2 end markets, it really came down to it being the timing of shipments.

So we believe that as far as the design rules that are coming in, that we don't believe that we overshipped them to the extent that that's going to cause us a problem. The orders on the book remained incredibly positive. So again, it's just -- it's more different to quarter-over-quarter as opposed to anything fundamentally different about the market.

Michael Hsing

And also, one of the questions is why the margin goes up and if these are 2 segments go sideways, okay? I mean the year-to-year -- year-over-year growth, I mean, if you look at it from a Q3 last year to now, those segments -- that contributes a lot of margins, okay, gross margins.

And the other segments, like consumers, I mean we phased out and there can be this not on the last year. So maybe the year, beginning of the last year. When the capacity gets issues, as you know, we always phase out these lower margin. That's another part of it. And -- but overall, the greenfield products drive the margins.

Bernie Blegen

And just to add to Michael's point, as far as phasing out lower margin business, we're trying to rationalize our wafer starts to capture the largest opportunity. And as a result, some of the lower-margin business that we would have used to have in our portfolio, we haven't emphasized that in our production planning. It's just not there as a component of our business like it has been historically.

Genevieve Cunningham

Our next question is from Hans Mosesmann from Rosenblatt.

Hans Mosesmann

Congratulations, like everybody else has mentioned. Good stuff. I have 2 questions. Michael, if we were to split 48 volts as an opportunity. So I'm thinking it getting 48 volts to the rack in your data center and within the rack, getting that 48 volts to the board and every board has to deal with the accelerators and there's power issues there. So there's 3 touch points. If that's the way to look at it, what is the opportunity for each? And where would you be seeing the first incremental business for 48 volts for MPS?

Michael Hsing

I think it's the solution, yes, you're right, okay? And then now the question is does depend on applications, 48 volts, down to 12 volts, down to directly to 1.2 volts. That's at the last part, okay, we don't do that and our customers -- and there's the few providers of the solution is not come -- and so we play in the market. I mean it's not to 12, 48 convert to 12 and convert 5 -- 4 or 5 volts, okay? That's the market we played. We came in and it's open builder materials. Everybody else can jump into it. And we -- so our competitor provides a similar solution.

And so that kind of -- we know this is the application, but which one, we don't know. Which one is hard to tell. All these high current products, and you probably know more than I do, okay, goes to 600 watt to 1,000 watts and even some of the couple of 1,000 watts. You see these are all MPS solutions now and these are -- the higher wattage you go, the volume get smaller.

And so in the coming years and those accelerate the costs, okay, the population in the data centers. And that's where you see it. These are 48 volts that convert to 12. And then you have a new solutions that we provide so you can to a firewall. So okay, an increase close to 1% of efficiency, which is a lot.

Hans Mosesmann

That was very helpful, Michael. My follow-on, just to end this, what is the view of the PC market for MPS? I think Intel mentioned that the low end of the PC market is weak, but the other parts are okay. What's your view to the degree that you have participation there?

Michael Hsing

Yes. We obviously -- okay, and we do well. And we do PCs and case PC, the commercial PCs, that even the low end of business from what we see. And -- but for us, it's a very opportunistic because we have a product developed for server. And without much of an engineering effort, we can spin off to do other products. We did a product for commercial PC and for commercial notebooks.

And on the other end, we do battery management. We do actually panel power too. And -- pretty much, we can offer the entire notebook solutions other than memories, other than the CPUs. And so that's -- it's very opportunistic. And we -- currently, we see the demand is very strong.

Bernie Blegen

Yes. And just to add to that, Michael, is we have a very good footprint in the commercial side. And because we have so many different client offerings, what we're seeing is being able to sell additional content into those same platforms.

Genevieve Cunningham

[Operator Instructions]. As there are no further questions, I would now like to turn the webinar back over to Bernie.

Bernie Blegen

Great. Thanks, Gen. I'd like to thank you all for joining us on the Q1 2022 earnings webinar. I look forward to talking to you again during our second quarter conference call, which we would like to be in July. Thank you and have a nice day.