

# Q1 2024 MPS Earnings Webinar

Monolithic Power Systems, Inc. (NASDAQ:MPWR)  
Q1 2024 Earnings Conference Call  
May 1, 2024 5:00 PM ET

## Company Participants:

**Michael Hsing** - Chief Executive Officer and Founder  
**Bernie Blegen** - Executive Vice President and Chief Financial Officer  
**Tony Balow** - Vice President of Finance  
**Genevieve Cunningham** - Senior Manager, Marketing Communications

## Analysts:

**Tore Svanberg** - *Stifel Nicolaus*  
**Quinn Bolton** - *Needham & Company*  
**Rick Schafer** - *Oppenheimer*  
**Ross Seymore** - *Deutsche Bank*  
**William Stein** - *Truist Financial*  
**Matt Ramsay** - *Cowen*  
**Gary Mobley** - *Wells Fargo*  
**Melissa Fairbanks** - *Raymond James*  
**Hans Mosesmann** - *Rosenblatt*

## **Genevieve Cunningham**

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

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

Before we begin, I would like to remind everyone that in the course of today's presentation, we may make forward-looking statements and projections that involve risk and uncertainty. Risks, uncertainties and other factors that could cause actual results to differ from these forward-looking statements are identified in the Safe Harbor statements contained in the Q1 earnings release, and in our latest SEC filings, including our Form 10-K, which can be found on our website. Our statements are made as of today, and we assume no obligation to update this information.

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

## **Bernie Blegen**

Thanks, Gen. We are doing something a little different with today's earnings call. As a detailed recital of performance metrics is included in the company's earnings commentary, accompanying the earnings release, I'll use this time to provide just a few comments on our Q1 2024 performance and our outlook before opening the call up to Q&A.

Our financial performance improved in the first quarter of 2024, with revenue up both sequentially from Q4 2023, and year-over-year from Q1 '23. Ordering patterns consistently trended upward through the quarter. Visibility into the second-half of 2024 however is limited, and many of our customers remain cautious. Despite this uncertainty around the second-half of 2024, customer engagement across all of our end markets remains high. And our design win pipeline continues to grow stronger. Additionally, we are continuing to expand our product portfolio, and diversify our supply chain globally. We believe both actions position our company for further growth as the market improves.

In summary, we saw consistent improvement through the first quarter, but we continue to be cautious about the second-half of 2024 business conditions. Overall, our proven long-term growth strategy remains intact, and we can swiftly adapt to market changes as they occur.

I'll now open the webinar up for questions.

## **Genevieve Cunningham**

Thank you, Bernie. Analysts, I would now like to begin our Q&A session. [Operator Instructions] Our first question is from Tore Svanberg of Stifel. Tore, your line is now open.

## **Tore Svanberg**

Yes, thank you, and congratulations on this enviable consistency. I have two questions. My first question is on share gains. And historically, Michael, Monolithic Power tends to really accelerate share gains during downturns. And I know there's a lot of focus on enterprise data right now, which is a third of your revenue. But can you maybe callout some other verticals or applications where you are seeing more share gains in the current downturn?

## **Michael Hsing**

Well, clearly, we see that we just went through a, [if we haven't out of] this downturn, [so like] (inaudible) you see this, we compare the rest of the industries, so we are like 10% up. And so, that's really a share gain. And so, in terms of -- so, the vertical market is auto -- is the one, we [won the] many sockets in there. And MPS is still small compare all these established -- our competitors. And other ones, even other ones, even the servers and the notebooks areas, and these we all gain shares. And the last one is the consumer, as we said a year ago or so, we given up some of the shares because the capacity constraints. Now we have lot more capacity now. And you will see some growth in the near futures.

## **Bernie Blegen**

And if I could add one additional comment there, is that we've had a number of greenfield opportunities that have been waiting to launch in the -- an improved macro environment. So, in addition to the end markets that Michael just referenced, I think that you'll also see share gains in both Communications and Industrial.

## **Tore Svanberg**

Great, thank you. And for my follow-up question, and specific on enterprise data, which is now a third of your revenues. There's been some chatter lately about lower power management content in next-generation AI data centers due to liquid cooling and other techniques to lower overall power. Is this impacting MPS broadly or is this kind of more sort of very specific use case in the server power management market?

## **Michael Hsing**

All these cooling systems, the new formant or vertical powers, MPS involve all of them. And if they transition to those markets, and this systems, and MPS is in the same games, like, we will gain, and we will grow with that. Is there any other comment, or, Tony, sound okay? Yes.

**Bernie Blegen**

No, I think that the point that we've demonstrated, particularly with enterprise data is the ability to leverage up content as we go into higher value technology. For example, the water-cooled in vertical represent opportunities, not threats. And if you look down the line not far out, we'll also be going into rack power as well.

**Michael Hsing**

Excellent, that's good. That's good. Yes, good answer.

**Tore Svanberg**

Great, thank you. I'll go back in line. Congrats again.

**Michael Hsing**

Thanks. Okay.

**Genevieve Cunningham**

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

**Quinn Bolton**

Great. I'll add my congratulations on a very steady performance in a challenging macro environment. I guess I wanted to follow-up on Tore's question on enterprise data, lots of your competitors making noise about perhaps gaining share at your largest enterprise data customer, and wondering if you could just address your latest thoughts on competitive landscape in both lateral power, and then perhaps looking forward to vertical power. And then, I've got a follow-up.

**Michael Hsing**

Yes. As you may remember, 2016, we have a power curve versus the power curve, then CPU computing capability and versus the power densities. And we projected it for 2018 or '19 that would be the crossover point, that MPS product and for those common footprint and use drive MOS couldn't fit into the peripheral powers. That's around 700 watts. If you remember that, 2016, we said that. And at that time, we project it was a CPU was wrong. It's actually turn out to be GPUs. But then, power is a power, power densities. But 2018 or '19 and is a -- that's pretty much the peripheral powers that reach the limit.

And now, from that times, like that everybody goes to a verticals, looking for even higher power AI computations or learning. So, all of these powers go to verticals. And peripheral powers that reach the limit. And on our -- I can't comment on our competitors, okay, so far, MPS, well, as always, we want to bring the best technologies, and we are not champing of the volumes, okay, we don't do that. Whatever we do, we do the best, and not the volumes that we ship. And on -- so when the market become normalized or -- and became a normal, and not like the last couple of -- last year or so. And there will be more solution come onboard. Lot of our competitors start to copy our product, so be it, that's fine. We stick our MPS model where we have a very diversified growth.

### **Bernie Blegen**

I think it's important to keep in mind when you look at our history, as Michael just referenced there, that we've always won opportunities due to our innovation. And as we look at the next generation of GPU or TPU or ASIC products that are in this high-power end market, we are an enabling technology, meaning that, at the front of the design cycle, we're consulted, we're integrated, in fact, with the development of the next generation of products. So, we believe that strategically, that yes, there will be competitive influences the market, but we want to continue to position ourselves as the leader.

### **Quinn Bolton**

Got it. And maybe just a quick follow-up, just any comments you guys have on when you think vertical power may go to volume production. Is that something that happens later in '24, or is that not in volume until sometime in 2025? And then the follow-up, Bernie, as you look at the consensus estimates, the Street's modeled up 9% sequential growth. In your December quarter, your typical seasonality, I think, is down 1% to 3%, wondering if you have any comments as to that sort of a-seasonal pattern out in Q4. I know you're not guiding out that far, but wondering if you could make any comments about that, that sort of atypical growth.

### **Michael Hsing**

Hey, I answer the first part of it, and the vertical power is happening now. There's a multiple of our customers they are launching the vertical power now. We are shipping those products.

### **Bernie Blegen**

Yes. I'll pick up the second part of your question there is that seasonality particularly as you're exiting a downturn is hard to predict and what we tried to indicate with our prepared comments is that there are, you know, signs of optimism from the standpoint of improved ordering patterns but how that translates into the second-half is hard to predict and so we have more of a profile of the guide that we've given for Q2, but that really as far as the difference between Q3 and Q4. We see them higher than Q2 perhaps but between the two of them flattish.

**Michael Hsing**

Yes. As we see AI, but we still continue to grow.

**Bernie Blegen**

Yes.

**Michael Hsing**

And grow at very fast rate.

**Quinn Bolton**

Great, thank you.

**Genevieve Cunningham**

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

**Rick Schafer**

Hi, thanks. I was having trouble with my mute button. Hi, my congratulations guys and I just had a couple questions. The first one just since we're talking about power and I sort of have a pointed one on server CPU power some of the new x86 platforms that are due out later this year are pushing 500 watts. I mean, is there an expectation just like the call you made back in 2016 maybe that was a little premature, but is there expectation that x86 is eventually going to move to 48 volts still and if so I guess, where are we in that transition how far off do you think that is?

**Michael Hsing**

Yes. Okay. Now since you mentioned in 2016 I can go back earlier so in like 2014 when I invite we are outside the door and 2016 we are we can join. Okay. We are we're invited as a guest and we give us some tokens and again and so you can play it and so the transitions and from VR 13.5 to 14 then this type at this time when these are new CPU powers we have a significant market shares that will keep and it's not reflected into a revenue yet and once those are CPU release, we will gain a significant amount of shares.

**Rick Schafer**

And any comment Michael on the transition to 48 volt power for x86?

**Michael Hsing**

That we don't know, that probably the higher powers is over 700 watt. I think those will transition to vertical powers and which we're ready and other ones below that we believe is still using a traditional rack powers and okay and use a 12-volt supply.

**Rick Schafer**

Got it. Thanks and just as a follow-up but shifting gives a little bit to auto, I was just curious what your expectations are for your auto business this year obviously that market is under a little bit of pressure near-term but I believe you guys have been pretty open about some of your material share gains for instance with China, China ADAS also with some of your top auto, well your top auto customer, you've also got some pretty significant share gains I believe ramping later this year, but I was curious if you could provide any update there?

**Michael Hsing**

We saw -- go ahead.

**Rick Schafer**

Oh, no. I was just was curious if you could add in there, what your expectations are from -- I know you had a couple of launches, that some OEMs delayed in the second-half last year and I didn't know if you still expected to benefit from those this year. I know that's kind of a lot in one question but there's a lot going on in your auto business.

**Michael Hsing**

Oh, yes, certainly. We actually care less with the share gain. What the revenue expectations, of course, we have to prepare all the inventory so now came in that and that's the only thing we care, whatever it is, whatever it is. Okay, we want to do, if we're not the best, we will not win those market segments. Okay. And particularly these are new applications and new features. So far, we can tell you and in this year's or end of the last years and Chinese EV makers they produce a lot more with those features that we are we are in, they export it in, not to U.S., but to other parts world, they increase the sum of somewhere five to six million units million cars and that's where we see the upside so far.

**Rick Schafer**

Got it. Thanks.

**Genevieve Cunningham**

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

**Ross Seymore**

I'll echo the congratulations on the stability. Just a question on the visibility into the second-half, I understand the caution especially given what everything going out in the broader market, but you also said that your bookings are improving. The order rates, the engagements et cetera, et cetera. So, is the visibility improving, it's just not as good as it used to be I'm just trying to reconcile the booking side improving, but the visibility, not.

**Bernie Blegen**

Sure, Ross. If we can kind of reflect that over the course of about the last six quarters ordering patterns have been well below whatever we call normal and when we're seeing improvement doesn't mean that we're seeing that they've necessarily stabilized or that they're as predictive as when you have like five or six consecutive quarters of strong ordering patterns. So, all we're trying to do right now is remain cautiously optimistic.

**Tony Balow**

And hey, Ross, it's Tony. The only thing I'd probably add on that right is really focused on the design win engagement making sure that pipeline is healthy because it's difficult to call when the market would come back as Bernie said it's still pretty choppy, but if we have that strong design win pipeline as well as having the supply chain diversification we were talking about, we're set to take advantage when the markets do come back.

**Ross Seymore**

Thanks for that Tony and Bernie. I guess is my one follow-up a near-term question for you. Any outliers in the growth that you're guiding to in the second quarter by end market segments, any versus a 7% total?

**Michael Hsing**

No. Outliers, I mean, the AI stuff? Yes, absolutely -- we still see a lot of growth that came in. We are getting, trying to get all the inventory ready, start to go even further and even have a lot more up sight.

**Bernie Blegen**

Okay. Yes, if I look sequentially between Q2 and Q1, we do see the continuing demand profile for enterprise data and I think we see also some contribution from automotive, but the rest of our end markets are pretty flattish.

**Ross Seymore**

Thank you.

**Michael Hsing**

Okay.

**Genevieve Cunningham**

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

**William Stein**

Great. Can you hear me?

**Michael Hsing**

Yes.

**William Stein**

Great. Thanks for a question. Congrats on the good results and thanks for the change in format it's a breath of fresh air.

**Michael Hsing**

Yes, and this is -- you appreciate it, like, we try to make a life and then make it easy for you.

**William Stein**

Thank you. I'm hoping you can update us on the progress you've pursued to try to diversify your manufacturing geographic footprint and both on the front end and back end and then a follow-up.

**Tony Balow**

Yes, I'll start. And then, I'll let Michael and Bernie pick up. So, I think we continue to make progress on diversification of our supply chain globally. And so, I think that is proceeding as planned and I think that we're set our customers would ask for that capability that we have it ready for them right now. So, I think as based on we said in the past, I would say no change in the expectation there. So, Bernie, Michael anything you want --

**Michael Hsing**

Yes, we build all these capacities our customer demands there's a few of them who really demand a lot outside of China. So, we have a more capacity, so that's the comment, okay.

**William Stein**

Okay. Let me try a different topic some product types that I know have been ramping maybe over a long period of time one is data converters, which is a category there's. I think there's really one very dominant supplier, but you guys have started to get into that area and then the other is the modules that you make when these are much more complex and they have many, many chips I think in each one. If you can talk to us about the recent growth in those newer categories that would be helpful color. Thank you.

**Michael Hsing**

Yes. Okay. Let me answer the first ones data converters and data converters are it's a technology that we're talking about and we developed in the last few years and we won't design win. We start to shipping products like, I mean, but as however is only one or two products now we're going to release a family of a product and in a less than a years.

Less than a year time, that will meet a more general market. The other topic that's what you're talking about there's a modules yes so-called e-commerce modules and we actually doing wells and not exactly the e-commerce we talked about 2018 and it's going over, well, over a \$100 million. I mean, but these multi-chip modules, it's more than \$100 million, actually all these are AI's product that we're shipping, these are all modules and vertical powers and also the rack powers, we're shipping all these are modules. So, in the past, I'm saying -- as I said, I'm a sick and tired of a selling silicon only. I want to leverage and monetize our know-how we will sell these power modules, sell solutions.

**Bernie Blegen**

And I think that, we've sort of hit on one of the strategic differentiators between MPS and a lot of our competitors is that we can offer the most flexible architecture of whether it is delivering a module or a silicon die, so however the customer wants to build our silicon or modules in their end application we have the flexibility to do just that.

**William Stein**

Thanks, guys.

## **Genevieve Cunningham**

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

## **Matt Ramsay**

Hey, guys. Good afternoon. I guess is my first question, guys, I wanted you to maybe talk a little bit about the content per socket progression that you see for the company in the AI business in particular as your silicon providers that are driving these platforms make generational transitions there. I think there's a little bit of confusion that the big primary guy in AI is not just launching one product, but they're launching three different ones that I expect have slightly different content and you obviously have other customers there in AI, not just NVIDIA, but others, so if you could talk generally Michael about just what you're seeing from a content perspective generation to generation there and maybe Bernie, like, what are the variables on sort of blended content increases that you might see as we move forward. Thanks.

## **Michael Hsing**

Yes, I can't talk about that. Well, I don't know, we don't know how our customers and these are AI GPU providers how they use it. I mean, they sell, they have a different model, they have a different model, they have a different, they have variety of a product. We as long as we know and they use some, they use IC in general for peripheral powers and verticals is all more than 700 watt powers over a 1,000 watt power, so these are from modules and how many modules per CPUs, and we have rough ideas, but we don't know exactly.

## **Bernie Blegen**

And to follow up on your second point, it's a very content-rich environment for us. It also includes memory, for example, and the CPU process, processor, in addition to --

## **Michael Hsing**

Even optical.

## **Bernie Blegen**

And optical as well.

## **Michael Hsing**

Yes.

**Bernie Blegen**

So, I think it's really too early to put limits on content availability. In fact, we're finding new areas in order to deploy.

**Michael Hsing**

So far, we just want to handle the growth.

**Bernie Blegen**

Yes.

**Michael Hsing**

All the demand from a memory side, from opticals, from even the GPU, CPU powers, and this period is really the growth period.

**Matt Ramsay**

Got it. Now, thank you, guys. That's helpful. I know there's a lot of moving parts. I was going to kind of step back and ask a little bit about gross margin trajectory. It comes up a lot in my conversations. I know you're kind of in that 55% range. I guess, Bernie, what are the puts and takes here? I know that there are big customers ramping in enterprise data, and there are variables around that. There's also mix between your segments and where you're sourcing supply from. There's a lot of variables here. So, what with, I mean, are we kind of at a relative floor in the 55% or slightly above range? And what would be the variables that could drive the margin back higher?

**Bernie Blegen**

Sure. This is a pretty simple question. So, as the range that we target is between 55% and 60%. We demonstrated that during the post-pandemic stimulus that our margin was able to go to the higher end of that limit. And right now, for the last couple of quarters, as well as our guidance here, we've maintained a non-GAAP rate of 55.7%. And really, what will enable us to go up is a change in the mix of business.

**Matt Ramsay**

All right. Thank you very much, guys.

**Michael Hsing**

Yes.

## **Genevieve Cunningham**

Our next question is from Gary Mobley of Wells Fargo. Gary, your line is now open.

## **Gary Mobley**

Hey, guys. Congrats, and thank you for consistently seeing the expectation. Most of the interesting questions have been asked and answered, but I wanted to touch on pricing trends. I know you don't overlap a whole lot with the analog chip market leader, but clearly, they're being aggressive on price. So, maybe if you can speak to the different product groups or business segments that might be affected by that, and as well, just generally speak about the pricing environment for your broad set of products.

## **Michael Hsing**

Tony, you want to?

## **Tony Balow**

Yes, I'll start and then let Bernie jump in. I think what you've heard from us in the past is that for us, because we lead on innovation and we're trying to work on the next generation platforms and work on where we really have a differentiated advantage to our technology, we're probably less susceptible to pricing than some of the segments that are volume-related or might be more mainstream. So, I do know there's lots of reports out there about pricing right now, but I'd say right now that's not impacting us in any way, and that's not impacting us in any way and you can kind of see that in our outlook. And so, Bernie, if you want to add some more on that.

## **Bernie Blegen**

Yes, and fundamentally, part of the issue that's driving prices, both additional capacity in China, as well as additional capacity that's coming on with a large North American company, and on the cost side, we've always been very, very competitive, regardless of the end market opportunity.

## **Michael Hsing**

Regardless of what the margin is, we always have to drive the cost down. Oh, I should give you more than you asked. And it's a little bit from the futures. And so far, nobody has asked a question yet. We saw in the near-term market in the next couple of years, the AI truly trickles down to all applications, not only in the cars, in all the sensors, in the building for the phones, and all kinds of things trickle down to different levels. And we see now all kinds of activities is going on now. And there's a lot of design, initial phase to forming the product ideas. And these

are requests from our customers. And we don't see that in the end of last year, even in the beginning of this year. Recently, we see a lot more. So, that will drive those products, definitely will drive the gross margin up.

**Gary Mobley**

Okay. Thank you for that comprehensive answer. Last quarter, your distribution inventory, I think you characterized the distribution inventory as being a little bit above the target level. What is it now? Have you been able to work that down to more of a normalized level?

**Bernie Blegen**

Sure. So, there's sort of two ways to look at our channel inventory right now. If you keep it narrow to really the AI supply chain, we're trying to keep that elevated so that that inventory is basically available on demand. But then with regard to all of the other end markets, we've seen it coming down nicely.

**Gary Mobley**

Thank you.

**Genevieve Cunningham**

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

**Tore Svanberg**

Yes, thank you. I just had two quick follow-ups. I'm intrigued by the consumer segment, Michael. I know that's surprising when everyone's talking about AI, but I think this is the lowest percentage it's ever been. But you did talk about getting some share there in the downturn. So, any particular applications that we should keep an eye on as you start to grow back in the consumer area?

**Michael Hsing**

Yes, that's a good question. Like, I mean, yes, as I said earlier that we fell into an unhealthy percentage. We want to have a diversified growth. We neglected our consumers. But on the other hand, during this period, a lot of our competitors care less about cost and we have less effect. But we didn't lower the price in the notebook market segment. And that's probably what you see now. We grow the notebook revenues faster than the notebook market growth. And these are low-margin products. But when you're looking forward, audio product, a lot of them relate to a consumer product. Maybe Tony, you can mention a lot-- you can talk about this.

**Tony Balow**

So, I'll go and then Michael can certainly talk a lot more. But I'd point you back to what we announced last quarter on our Axign acquisition. And we really looked at their technology and saw an opportunity to participate in the high-end audio market. And MPS's scale and Axign's technology really offered an opportunity to go after customers. And we're seeing some traction in that area. So, consumers got a wide base of potential applications. And I think we'll continue to pick our shots where we can really add value with our innovation.

**Michael Hsing**

Yes, I can tell you, we will start to ship in Q3, but Axign and MPS together as a bundle.

**Tore Svanberg**

Yes, that's exciting. And my last question is on communications. It was actually up sequential this quarter. Everything that we're hearing, of course, is that market is still very weak. In your prepared remarks, you said that that growth was driven by networks. So, can you elaborate a little bit what's going on there? Are you actually starting to see that market turning? Or is this just pure share gains?

**Bernie Blegen**

It remains a flattish market. I think that in quarter-by-quarter, we're going to see infrastructure go up or down. But the full-year outlook is that it'll probably be flat with '23.

**Tore Svanberg**

Sounds good. Thank you.

**Michael Hsing**

Yes, I'm betting on a communication market. It will trickle down from than of the speed and the demand of a higher speed. We'll trickle down to all these segments. And we have a lot of design wins in 5Gs or using other high speed or the Wi-Fis. And we're ready for that.

**Tore Svanberg**

So Michael, what you mean is AI will trickle down. And as that happens, the comm sector will revive.

**Michael Hsing**

That's right. Yes, it has to. That's no-brainer.

**Tore Svanberg**

Great. Love the color. Thank you.

**Michael Hsing**

Okay.

**Genevieve Cunningham**

Our last question is from Melissa Fairbanks of Raymond James. Melissa, your line is now open.

**Melissa Fairbanks**

Hey, guys. Michael, I love a no-brainer. I mean -- [multiple speakers] So, I love that. I love that.

**Michael Hsing**

Yes, I don't even have my brain to talk about that.

**Melissa Fairbanks**

Yes, yes. I'm adjusting my model accordingly. So, I know you guys addressed auto earlier. And I know everyone is focused on enterprise data. But I would like to understand better, we're coming up on the model year builds, for like model year '25. I would like to know where you feel comfortable guiding the auto revenue from here?

**Bernie Blegen**

Yes, so let me take that one. A lot of the exposure we have with new content is with the EV companies. And so, Michael touched on the opportunity, particularly as it relates to Chinese OEMs, where we have a good install base, particularly as it relates to ADAS or autonomous driving. And those tend not to be as seasonally driven as the internal combustion.

**Melissa Fairbanks**

Right.

**Bernie Blegen**

So, while we're seeing some sequential improvement quarter-by-quarter during the year, we don't necessarily -- we're not looking for that hockey stick that used to occur with the automotive sales in Q3.

**Melissa Fairbanks**

Okay, got it. Thank you very much guys.

**Michael Hsing**

All right, thank you.

**Genevieve Cunningham**

I would now like to turn the webinar back over to Bernie.

**Bernie Blegen**

So, I'd like to thank you all for joining us on this conference call, and looking forward to talking to you again during the second quarter conference call, which will likely be in late July. Thank you. Have a nice day.