Monolithic Power Systems Inc (NASDAQ:MPWR)
Q4 2021 Earnings Call Transcript
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Genevieve Cunningham

Welcome, everyone, to the MPS Fourth Quarter 2021 Earnings Webinar. Please note that this webinar is being recorded and will be archived for one year on our Investor Relations page at www.monolithicpower.com. My name is Genevieve Cunningham, and I will be the moderator for this webinar.

Joining me today are Michael Hsing, as CEO and Founder of MPS; and Bernie Blegen, VP and CFO. 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 Q4 earnings release and in our SEC filings, including our Form 10-K filed on March 1, 2021, and Form 10-Q filed on November 8, 2021, both which are 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 Q4 and full year 2021 earnings release, which we have filed with 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 one 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. In 2021, MPS surpassed the $1 billion revenue milestone by achieving record full year revenue of $1.2 billion, 43.0% higher than the prior year. This performance represented consistent execution against our strategies and being recognized by more first-tier companies for our superior technologies, product quality and excellent customer support.

As we see more high quality growth opportunities ahead of us, we continue to invest in our infrastructure and operational capabilities. In 2021, MPS grew capacity by 40% and we are on track to expand capacity in 2022, well beyond $2 billion allowing the company to successfully ramp new product revenue and achieve strategic market share gains.

Here are a few highlights, which we achieved in 2021:

- Brought online a new 8 inch fab and continued to qualify parts in the 12 inch fab, we brought online in 2020. We will continue to invest in growing fab and assembly capacity.

- We designed processor cores and MCU technology into products requiring more sophisticated power solutions such as USB power delivery, smart motor drives, and high power electrification.

- Our first prototype of a high precision analog digital converter product for medical applications achieved outstanding silicon performance in lab evaluations. We have started customer sampling in Q1 2022. Validation of this technology is a strong first step in developing a new business segment supporting both industrial and infrastructure end market applications.

- We believe new product revenue from a large number of previously released designs will ramp in 2022. A representative sample includes products supporting applications in VR14, 5G, BMS, ADAS, AI, USB PD, DDR, and many more.

Turning to our full year 2021 revenue by market segment compared to 2020, automotive revenue was up 87.5%, computing and storage revenue up 47.0%, industrial revenue up 54.5%, consumer revenue up 28.1% and communications revenue up 15.3%, demonstrating just how broad based our full year 2021 revenue improvement was.

Automotive revenue grew $95.4 million to $204.3 million in 2021. This 87.5% year-over-year gain primarily represented increased sales of our highly integrated applications supporting the digital cockpit, automated driver assistance systems and connectivity. Automotive revenue represented 16.9% of MPS' full year 2021 revenue compared with 12.9% in 2020.

Full year 2021 computing and storage revenue grew $119.1 million over the prior year to $372.3 million. This 47.0% increase primarily resulted from strong sales growth for enterprise notebooks, cloud computing and storage applications. Computing and storage revenue represented 30.8% of MPS' total revenue in 2021, compared with 30.0% in 2020.

Industrial revenue grew $65.2 million to $184.8 million in 2021. This 54.5% year-over-year increase was broad based with each our primary product lines enjoying better than double-digit revenue growth. Industrial revenue represented 15.3% of MPS' full year 2021 revenue, compared with 14.2% in 2020.

Consumer revenue grew $61.9 million to $282.3 million reflecting increased product sales for home appliances and smart TVs. Consumer revenue represented 23.4% of MPS' full year 2021 revenue, compared with 26.1% in 2020.

Communications revenue grew $21.8 million to $164.1 million. This 15.3% improvement reflected higher sales of products for both infrastructure and wireless routers and gateway applications. Communications revenue represented 13.6% of our 2021 revenue, compared with 16.9% in 2020.

Switching to Q4.

MPS had a record fourth quarter with revenue of $336.5 million, 4.0% higher than revenue generated in the third quarter of 2021 and 44.4% higher than the comparable quarter in 2020. By market segment, revenue for computing and storage grew 91.6% year-over-year, communication grew 54.7%, automotive grew 43.2%, industrial grew 33.3% and consumer grew 1.9%.

Fourth quarter 2021 GAAP gross margin was 57.6%. Same as third quarter 2021 and 230 basis points higher than the fourth quarter of 2020. Our GAAP operating income was $78.6 million compared to $77.1 million reported in the third quarter of 2021 and $40.0 million reported in the fourth quarter of 2020. Fourth quarter 2021 non-GAAP gross margin was 57.9%, 10 basis points higher than the third quarter of 2021 and 220 basis points higher than the fourth quarter of 2020.

The year-over-year expansion in fourth quarter, non-GAAP gross margin was largely due to a shift in sales mix, favoring high value greenfield products and operational efficiency gains, which more than offset higher product input costs. MPS achieved noteworthy market share gains in 2021 due in large measure to product availability and disciplined sales price management. Our non-GAAP operating income was $112.0 million compared to $108.4 million reported in the prior quarter and $66.3 million reported in the fourth quarter of 2020.

Let’s review our operating expenses. Our GAAP operating expenses were $115.3 million in the fourth quarter compared with $109.2 million in the third quarter of 2021 and $88.9 million in the fourth quarter of 2020. Our non-GAAP fourth quarter 2021 operating expenses were $83.0 million up from the $78.7 we spent in the third quarter of 2021, and up from $63.6 million reported in the fourth quarter of 2020.

On both a GAAP and a non-GAAP basis, fourth quarter 2021 litigation expense was a credit balance of $420,000 compared with a $3.4 million expense in Q3 2021 and a $1.5 million expense in Q4 2020. The credit balance in fourth quarter 2021 litigation expense reflected an IP settlement, refund of a legal retainer and lower than anticipated fees.

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

Fourth quarter 2021 stock compensation expense including $921,000 charged to cost of goods sold was $31.2 million compared with $31.6 million recorded in the third quarter of 2021.

Switching to the bottom line. Fourth quarter 2021 GAAP net income was $72.7 million or $1.51 per fully diluted share compared with $1.44 per share in the third quarter of 2021 and $0.90 per share in the fourth quarter of 2020. Q4 2021 non-GAAP net income was $102.1 million or $2.12 per fully diluted share, compared with $2.06 per share in the third quarter of 2021 and $1.31 per share in the fourth quarter of 2020.

Fully diluted shares outstanding at the end of Q4 2021 were 48.2 million.

Now let’s look at the balance sheet.

As of December 31, 2021 cash, cash equivalents and investments totaled $727.5 million compared to $744.5 million at the end of the third quarter of 2021. For the fourth quarter of 2021, MPS generated operating cash flow of about $28.2 million compared with Q3 2021 operating cash flow of $117.8 million. The between quarter drop in operating cash flow primarily reflected a $51.3 million increase in inventory and higher accounts receivable.

Fourth quarter 2021 capital spending totaled $17.6 million.

Accounts receivable ended the fourth quarter of 2021 at $104.8 million or 28 days of sales outstanding compared with the $79.9 million or 22 days of sales outstanding reported at the end of the third quarter of 2021 and the $66.8 million or 26 days reported at the end of the fourth quarter of 2020.

Our internal inventories at the end of the fourth quarter of 2021 were $259.4 million up from the $208.1 million at the end of the third quarter of 2021. Calculated on a basis consistent with our past practice and as you can see from the webinar video, days of inventory rose to 166 days at the end of Q4 2021 from the 134 days at the end of the third quarter of 2021.

Historically, we've calculated days of inventory on hand as a function of the current quarter revenue. We believe comparing current inventory levels with the following quarter's revenue provides better economic match. On this basis, again, we can see days of inventory increased to 152 days at the end of the fourth quarter of 2021 from 133 days at the end of the third quarter of 2021.

I would now like to turn to our Q1 2022 outlook. We are forecasting Q1 2022 revenue in the range of $354 million to $366 million. We also expect the following:

- GAAP gross margin in the range of 57.4% to 58.0%.
- Non-GAAP gross margin in the range of 57.7% to 58.3%.
- Total stock based compensation expense of $36.9 million to $38.9 million, including approximately $1.1 million that would be charged to cost of goods sold.
- GAAP R&D and SG&A expenses between $119.2 million and $123.2 million.
- Non-GAAP R&D and SG&A expenses to be in the range of $83.4 million and $85.4 million. This estimate excludes stock compensation and litigation expenses.
- Litigation expenses to be in the range of $2.3 million to $2.7 million.
- Interest income is expected to range from $1.0 million to $1.4 million before foreign exchange gains or losses.
- Fully diluted shares to be in the range of 47.8 million to 48.8 million shares.

Finally, I'm pleased to announce a 25% increase in our quarterly dividend to $0.75 per share from $0.60 per share for stockholders of record as of March 31 2022.

In conclusion, MPS' strong financial performance in 2021 was largely due to a 40% increase in fab and assembly capacity, which supported our high-value, greenfield-product, revenue ramp.

Looking ahead, MPS is on track to expand capacity in 2022 well beyond $2 billion, allowing the company to successfully ramp new product revenue and achieve strategic market share gains in 2023, 2024 and beyond.

Question-and-Answer Session

Genevieve Cunningham

Thank you, Bernie. Analysts, I would now like to begin our Q&A session.

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

Tore Svanberg

Yes. Thank you. And congratulations on the very, very strong results. So I'm going to ask this question differently. Usually, people ask you how come you carry so much inventory, this time I'm going to ask you, how were you able to actually get your inventory days that high. How are you both finding the capacity and again being able to build the inventory in spite of this very, very tight environment we're seeing in the industry?

Michael Hsing

Well, as you know, in this business, building a inventory a qualified fab, okay. These are not one day, two day things, enough short-term. These all we planned a few years ago. And now we are … just the opportunity presents it and we just catch it. And nothing was short term and okay, we couldn't – we don't have a crystal ball for the futures and we just react, we just plan ahead and react as fast as we can.

Bernie Blegen

And I think to add to that, that shows that we have a lot of inventory on hand that presents the capacity to allow us for sales in the next two quarters. So what we've done is made conscious investments in inventory, in the supply chain. And what we're trying to do is manage such that we hold the inventory, we're still keeping channel, in the channel inventory lean. And we're trying to make sure to the best of our abilities that we're in touch with the inventories that our customers are keeping. So they're likewise lean.

Michael Hsing

Yes. I also want to add and okay, as you remember and a few years ago, and I talk about it. MPS is going for well beyond million or a couple million dollars. And I wasn't joking and we plan ahead for our business. That's what we saw a few years ago and now you grow this much is, of course, we didn't expect that. But we do have a capacities and okay – and we do have to do some creative ways in the scrambling to get to 45%. And so that's all that is, like, it wasn't – we don't have a magic tricks and then in the last six months or so.

Bernie Blegen

And it's good as you have note – as Michael noted, we crossed the $1 billion revenue threshold and our revenue growth rate is accelerated from historic precedent.

Tore Svanberg

Yes. Well done. As my follow-up question, could you just add a little bit more color on the $2 billion worth of capacity? You've talked about now, ramping in on 8-inch, you're also qualifying products on 12-inch. Will there actually be 12-inch product sales this year?

Michael Hsing

Yes. We're qualifying, as you know, so MPS don't build a fab. And we don't have a lot of capital spendings and, again, but we do have an increase all these capacity qualifier fabs, that cost money. And so to answer your questions, like, and we do transitions – nowadays. Okay. We get all this capacity whether it is 12-inch or 8-inch as much as we can.

Bernie Blegen

And just add to that, that was our second 12-inch fab that we brought online in 2020.

Michael Hsing

Yes.

Tore Svanberg

Right. Very good. I'll go back in line. Thank you and congrats again.

Michael Hsing

Okay. Thank you.

Genevieve Cunningham

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

William Stein

Great. Thanks for taking my question. Congrats on the eye popping results and outlook. I want to ask about the module business that you've spoken about in the past, this thing that might even accelerate growth further over time. I'm wondering what percentage of revenue modules contributes today and how we should think about the trajectory of that business. And if you could also comment on any potential tuck-in acquisitions that were either executed or contemplated for in the future to fulfill your strategy in that area. Thank you.

Michael Hsing

Yes. Okay. I'm glad you asked the question, the module business I think it's a side of a 10% for this year.

Bernie Blegen

It's actually mid-single digits.

Michael Hsing

Okay. Yes, yes. And so you can quantify as a much more accurately. Okay. I don't know the others of numbers in detail. All I know is, and okay, we grow 100% every years in the last couple years. And now you using the word accelerating this years and the next couple years, that's what I see it now. And the other things, okay, the second part of your questions about acquisitions for the tuck-in technology or to enhance our future growth on the – using our MPS technology for those companies. Yes. We are engaged with handful – as a handful of a company, like, more than six companies and we're – so far we're engaging with it and nothing we – nothing materials lies. We should announce it now.

William Stein

Thank you.

Genevieve Cunningham

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

Alex Vecchi

Thanks for taking my question. And I echo the congratulations on the outstanding results. Just maybe to expand on Tore's question with regards to the capacity expansion from $2 billion on, can you quantify how much more capacity do you think you'll be adding in the next year or two or three or the right way to think about it? I think in the past, you've alluded to the fact that the current product portfolio can support upwards of $3 billion to $4 billion in revenues. So is that sort of the right way to think about the long-term trajectory?

Michael Hsing

Yes. That's absolutely correct. And for the semiconductors, yes, we have to have a fab capacities for that kind of revenues. But even going the futures, because we're selling more high-dollar modules and solutions and which utilizes silicon even less. So we have – we should have – we shouldn't – and our semi's wafer capacity even so will be less factors.

Alex Vecchi

That's actually really helpful. And then similarly with the comments on – in terms of the segment breakdown, the Storage and Compute segment was very strong in the quarter. And I think you've talked a little bit about enterprise notebooks. It seems like that's one of the areas, notebooks in general, where there's a little investor trepidation going forward. Can you maybe talk about what the opportunity there is and – or maybe what the SAM is for your notebook outlook over the next few years?

Bernie Blegen

Sure. I think it's important to qualify that the growth that we've experienced, in particular over the last two, three years, has really been at the enterprise level, where we're selling into units that would retail for above $1,200. And we've been very successful as far as capturing a large part of market share that really is not necessarily driven by consumer trends. So they're not as prone to the downward unit numbers that are being projected for notebooks.

Michael Hsing

Yes. Overall, we want to achieve a balanced growth. We don't want to be known as a notebook company. And that's MPS' strategy is diversify the growth.

Bernie Blegen

And just to pick up on Michael's point, we saw a very strong uptick in our cloud and server business, particularly in Q4, which we expect to continue to ramp into 2022.

Michael Hsing

Overall, the notebook revenue is very, very – is a single digit now.

Alex Vecchi

Okay. Thank you. With that, I'll hop back into queue.

Genevieve Cunningham

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

Quinn Bolton

Hey, guys. I offer my congratulations as well. Bernie and Michael, I'm surprised you haven't gotten the question yet, but I followed the company for a long time. I think this is the biggest gross margin beat you guys may have ever put up. If I got my numbers right, you beat gross margin by 130 basis points in this quarter. Looking back to the third quarter, I think you had a $4 million litigation revenue in the number that drove strength in gross margin, but that was clearly a onetime issue. So can you talk first about what drove the strength in gross margins and you're guiding them effectively flat, up 10 basis points technically in the first quarter. So it looks like that margin strength continues. Can you just talk about gross margin?

Bernie Blegen

Sure. We tried to reflect on that a little bit in the prepared comments, where I indicated that we're benefiting right now by a more favorable shift in our product mix, which is higher margins on the new greenfield business, but also operational efficiencies. As far as we indicated earlier, the percentage of silicon that's coming from 12-inch, but also is a reflection of our improved quality standards. So I think that as we've reflected on what the sustainable margin going forward that we've offered sort of a new floor, which we look to grow again 10 to 20 basis points sequentially, although obviously, we'll keep our eyes open if there is an opportunity to have another step-up.

Michael Hsing

If there's another side, okay. A few years ago, we talked about a greenfield product. And then you actually, I remember, asked, there is no headwind in – is there any headwind in the gross margins. So the answer was all these new products, greenfield product will aim at the high-end products and high values. And so the gross margin should be better. So this time, we didn't increase the price that much. We pretty much passed the cost to our customers or not even passed to our customers. But as Bernie said, shifted to 12-inch and also the internal efficiency improvement. And with a high gross margin product, that is the majority of the gross margin improvement.

Quinn Bolton

Got it. And as a follow-on, for two quarters now, you've seen a pretty nice increase in your internal inventory levels. Wondering if you could just comment, as you're building that internal inventory, how much of that is for new greenfield products versus, say, the run rate business?

Michael Hsing

Clearly, we shifted away from a consumer side. And so that we allocated a lot of products for these high-end targeted – MPS targeted market segment. So we grow the inventories for those segments.

Bernie Blegen

I think something to add there is that we do have some high-volume business, and we're treating that as a run rate. So we're – it's probably the area that has the tightest capacity. But where we have these new products, the greenfield opportunities, we have new customers and new markets as an insurance policy to make sure that they're perceived very positively and that we can cover upside potential. We have been building inventory to support that. And I think that's been reflected very well as far as the customer acceptance of the new products as well as market share gains afforded by appropriate inventory levels.

Quinn Bolton

Got it. Thank you.

Genevieve Cunningham

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

Ross Seymore

I'll echo the congrats. I wanted to follow-up on the second half of your answer to Quinn's question there, Bernie. And in the past, you guys have always gained market share and very consistently so. This year was – well, this past year was no different. But you also had significantly greater availability than your competition. So I just wanted to see what the client or the customer relationship, how that's been enhanced because of the availability. Do you believe that the wins you've gotten from availability will lead to sticky relationships going forward? You mentioned moving up into kind of first tier customer base. I'm just trying to figure out the sustainability of the revenue growth because of that availability dynamic?

Michael Hsing

That's a very, very good question. So okay, how do we grow like 45% over – close to a $1 billion base, okay? Well, you think about it, okay, all these products that we released in greenfield products and these two first-tier customers. And usually, these are large customers that they're ramping a new supply very carefully. So they don't allocate a large percentage. They always have a second source. And now we have shortage everywhere. MPS have capacities. So everything shifted to MPS. That's one factor.

And the second factor is that we talk about MPS products are more programmable and our customers find out before they care less. And now they find out, our product – single product can do multiple purpose and that contributes in other factors. And so we can replace and we can – shortly, we designed – our customers redesign and the source out to adopt the MPS solutions. So – but these two points is very sticky, especially the second point, and our MPS products are more programmable, and they enjoy that. And they solve their problems and they realize the values. And so I would say they're very sticky.

Ross Seymore

Great. And I guess as my follow-up question, I thought you talked about another greenfield opportunity, which is a huge part of the analog market which is getting into the converter side of things. Can you just talk a little bit about your aspirations there, some of the applications you're going after? And what sort of opportunity you see unfolding in that?

Michael Hsing

Yes. We just – we did – we do have a silicon announced and the performance is outstanding. And these are the new market segments, and these are purely in a single side, which we never have. These are internally developed. We have a group of people and they have a lot of experience, and that's a new market segment for us. So the focus will be the communications and also medical applications, like imaging, x-rays and ultrasounds and those type of things.

Bernie Blegen

And just to add, as far as the characteristics of this technology, there are not a lot of companies that have been successful with this. And the ones that have, have carved out pretty exclusive markets. And as a result of that, they command very high gross margins. So we look to be a new market entrant, but also with a very – a big competitive advantage.

Michael Hsing

Yes. So it's – yes, it is a milestone for MPS. As so-called high-performance analog company, they tried it and they achieved a mediocre result. And now, see what we can do. And we do have a product and so for the next couple of years, and we'll see what we can do.

Ross Seymore

Thank you.

Genevieve Cunningham

Our next question is from Chris Caso from Raymond James. Chris, your line is now open.

Chris Caso

Yes, thank you. For my first question, talk a little bit about seasonality. And obviously, the Q1 results are better than what we normally expect in a seasonal Q1, and I suspect that's because of some of the capacity additions that you're bringing on. Can you talk about these capacity additions as we go through the year? Are they brought in, in the road to the $2 billion revenue level? At capacity level, is that going to come on fairly evenly during the year? Is there a step up at some point? And then when that happens, do you think that you will be fully able to meet your customer requirements presumably this year?

Bernie Blegen

Chris, I think you get credit for three questions there. Hopefully, I'll be able to keep the thread going. The first issue had to do with seasonality and generally speaking, from Q4 to Q1, we observed a modest dip. In fact, because we have such an imbalance, an unprecedented demand supply and balance, that in fact seasonality is not as much a function today as opposed to your second question, which has to do with product availability. And that's sort of the gating item for how fast a company can grow.

And as Michael pointed out earlier is that as part of our company, we've always built capacity alongside the development of our new products. So we, in fact, got out in front of this upsurge in the market and have been able to participate and, in fact, accelerate our capacity build out. And that's really a reflection of how we're looking at 2022.

But I think that one thing that we've always done is we've had to make intelligent decisions many years ahead of when the capacity has been needed. So in fact, we're in discussions in order to be able to get capacity for 2023, 2024 and beyond. And we feel very secure in what we're capable of doing in 2022.

Michael Hsing

Well, to answer your questions, honestly, if it gives us another 50% growth for this year, we'll be in trouble. Okay.

Chris Caso

Okay. I think that will be welcome trouble if that were the case.

Michael Hsing

Yes.

Chris Caso

I'll take liberty to ask one more that you were nice enough to answer, Mike and Bernie, which is with regard to pricing. And Bernie, you made a comment on the call, you spoke about disciplined sales price management as I think how you termed it. Could you explain what that means and the extent to which pricing has been a contributor to year-on-year growth and whether that's something that's in the rearview mirror where you'd expect to continue to increase?

Bernie Blegen

I think that most people have recognized within the semiconductors and even specific to analog that, that created an opportunity for many companies to effect price increases with their customers. And a lot of them implemented that as early as Q1 of this year. We showed – we made a conscious decision not to increase our prices on a broad base, selective market opportunities, but broadly, we did not.

And we did that along with having product availability as a means of being able to secure a higher level of market share. And so now as we look at 2022, we are going to implement selective but more broad-based price increases, but they will be at a more modest level than some of our peer companies have implemented.

Michael Hsing

Yes, when we look at it, we invest in our customers for the future growth and for the future opportunities. And – but we do have a modest gross margin expansion as our model, okay. We keep saying it, and we have a steady state growth in every segment.

Chris Caso

Got it. Very helpful. Thank you.

Genevieve Cunningham

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

Rick Schafer

Hi, thanks and look – my congratulations guys on the next quarter, another nice quarter. Maybe if I could, just a quick question on 5G. I mean you guys have talked in the past about 5G as a pretty significant opportunity for MPS. I think, Michael, I think you said potentially hundreds of dollars of potential content there, sort of similar to server or data center cloud for you guys.

So I don't know if you could give us any update on design momentum since or when the revenue contribution might sort of start to inflect if that's still kind of the second half of this year? And I'm curious, as part of that question, are you going to see QSMOD sort of be part of that initial ramp this year? Or is it going to be more sort of point of load ECUs sort of how you began during your journey in server. If you could give any color there, that would be great.

Michael Hsing

Yes. So to answer your first part of the question first, like I mean in the 5Gs, and I give is actually 5G – a lot of products in – especially in the high current side all relate to QSMOD. And similar technology-based product, again, we power up the 5Gs in all areas and from a single size and all the way to transmitters.

And we don't see a very high rate of ramping. And so they're still steady state. And the other question is QSMOD so like I mean for the data centers. We are – this year, okay, we have to say we occupy is that still less than a single-digit of a total percentage of the total 10 of the market. But the significance is from almost nothing and to a high end of a single-digit. And earlier I said that if we don't occupy the 30% of the market, we should not be in the business. So we still have a lot of room to grow.

Bernie Blegen

And I think with the release of VR14 that we're in a very good inflection point on the – in the cloud and in the data center.

Rick Schafer

Yes. And Michael, just to follow that, but it took, I think, about three or four years to sort of get point of load need you share today, which I think is about 30%. So I think are you saying that's sort of a good proxy for QSMOD could be in the next couple of years?

Michael Hsing

Yes. Okay. Yes. So let's take actually longer than that, more than three or four years. And I was wondering why it so long within – in the early days, I'll say that we could grow very quickly. I didn't know what I was talking about, okay? And for the next, as Bernie mentioned, the VR14s, and VR13.5 sort of MPS accepted as other players, okay? And VR14s, I think, we have pretty good shares to start to ramp, but it's not happening now, and sometimes this year, right?

Bernie Blegen

Yes. VR13 has been delayed again, it's more likely to be Q3.

Michael Hsing

Yes, yes, yes.

Bernie Blegen

But you are right, we've observed in Q4 an uplift as a result of 13.5.

Michael Hsing

Yes, yes. Okay.

Rick Schafer

Thanks. And if I could ask just a follow-up to Bernie probably. I just wanted to ask, I haven't asked in a long time. Balance sheet looks great, obviously. I was just curious if you could give us an update on use of cash going forward. I mean, obviously, you've done a really good job of investing in future growth and R&D, but I'm just curious how much you need to run the business here and feed R&D, et cetera? Thanks.

Bernie Blegen

Yes. And it's a great question because you want to look at it sort of three levels for our particular story. One is we have to keep a certain amount of cash available in order to fund our growth, particularly as it relates to receivables and inventory, but also we're expanding operating expenses worldwide at an accelerated rate. And all of those demand a level of liquidity.

The next thing that we've talked about is building infrastructure and capacity. And even though we're outsourced as far as our fabs and assembly, we do a lot of our own testing. In fact, with the quality requirements of some of the new markets we're going in, we can't outsource that. We do all of our own testing and that requires an additional investment.

And then you have buildings, which, as you know, we're one of the few companies that we purchased our own footprint to house our growing staff headcount. So we're going to continue to leverage the balance sheet in order to help accelerate our growth while at the same time, as we announced in the prepared comments, we're increasing the dividend by 25%. So we're also mindful that we need to return some of the cash back to shareholders.

Michael Hsing

Yes. Well, Bernie said that said accelerated expense growth. No, we're not accelerating. No, absolutely no. Let's make that clear. And so we are pretty a little bit above our model, okay, growth – MPS growth – the expenses growth, okay? And for the return of cash to our investors, and we have an overwhelming case support for – from our investors in dividend and not buyback.

So we are thought about buybacks again now, okay, we still okay, let's delay it because we get the feedback, okay, they want to do a dividend. I don't know whether this related to a tax issue or not related, okay. So I think is in a – in the past, we said our models are consistently increased dividends, okay?

And the other side of the using of cash is we want to acquire a company, not for revenue growth, is cheaper to grow MPS revenue by zone. But we can do this. So we can – MPS has a lot of garden variety of different products and can fuel some – can enhance a couple of areas to the end product. And we want to acquire those small tuck-in product, very unique and a sustainable growth and a sustainable. And based on MPS technology, we can grow those companies. And that's the company we're really interested. And so the earlier, I said were engaged with a few companies now.

Rick Schafer

Thanks for all the color guys. Congrats.

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, everyone. Michael, I've been asking you about this for, I don't know, three, four years. But in the last, I guess, three or four months, you guys talked a bit more about opportunities for MPS in the electric vehicle market, some in drivetrains, some in regenerative braking. I wonder if you might talk a little bit more about the revenue opportunity per car with your lead customer, the timing of that, and how wide is the pipeline in terms of the number of engagements that you might have in the EV market? Thanks.

Michael Hsing

EV market, we are in the ADAS area, I think that we are in the ADAS 2.5 or 3.0. We almost engage with everybody. And so I can't give you numbers. For pure electrical car, MPS has about somewhere $80 to $100 shipping to date. And we're starting this year. We're starting not this year, starting actually last year. If you involve with a regenerative braking and a drive trend, those will add another over $1,000. And we don't have those revenue yet, but we do release those products.

Matt Ramsay

Got it. Any – are those larger ASP products, any thoughts on timing?

Michael Hsing

We are – there's several – there's many products that we are talking now, we have released a couple of them already or more than a couple of them already. And the key is we want to offer the total solutions. And customers pretty much can use MPS reference design.

Matt Ramsay

Got it. As my follow-up question, it's a different topic. And one of the things that I've been having investor conversations about is the broad-based industry adding – investing a ton of CapEx and adding a ton of capacity and this fear that the industry is adding it at a peak, right? You see a couple of new fabs coming online from Texas Instruments in the next number of quarters, Infineon is up in CapEx, pretty much everyone is.

And so you guys have been in a unique position to have a ton of capacity come online when others have struggled to do it. And it sounds like that's going to continue for you. I just wonder, any concerns as the industry catches up with capacity, Michael? And maybe you could contrast the type of capacity, the process node that you're on, the nature of the capacity that you're bringing online for some that the rest of the industry may be adding. Thank you.

Michael Hsing

Yes. That's a good question. So okay, you know that okay, first thing I should answer that. MPS don't build anything. We don't build anything. We don't have a fab, but we do have all the technologies. And usually, how we're getting a fab capacity is those fab are empty. And we go in there, we wonder, we say, okay, we can fill you up. It's a long-term partnership.

And so – and like this year or the last year, okay, and you want to add capacity, forget it, okay? I mean those guys are busy shipment, okay? I mean, there are no fabs. And so we engage with them in the downturns. And we implement our technology. Remember, we don't – it's not like building a fab. We don't build a fab. The cost is minimum. And – but we do have some commitment, and we do have – give some consignment on some equipment, okay. But these costs compare building a fab is much, much less. Okay.

Matt Ramsay

Thanks very much guys. I appreciate it.

Michael Hsing

Yes. Okay.

Genevieve Cunningham

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

Tore Svanberg

Yes. Thank you. Just two quick follow-ups. I know it's early in the year, but would you have – so you have four horses that are running really fast. You have one horse that's kind of just running slowly. If we look at this year, which of the horses do you think will grow a bit faster? I know there's a lot of talk about auto and server, but yes, which horses should we bet on this year?

Michael Hsing

We don't want to be known, MPS is all a notebook company. Definitely not a notebook company. And I think it's – we are shifting – clearly, this year, we're shifting from our consumers to – well, at least the last couple of quarters. We shifted from our consumer to automotive and server and service from a cloud computing side. And again – and so these are, for this year, probably remain similar. So okay, that's why we see it.

Bernie Blegen

Yes. And I think that when you say that we've got five strong horses, that's a more accurate reflection because I'd say that in the current year, we were surprised by the strength of Industrial. So – and I think that's going to continue on into the next year. And as we talked about earlier, the communications market, while it may not be coming on as fast as we had originally hoped for or expected, still looks very promising in the second half of this year. So I think really the thesis remains being broad-based growth.

Michael Hsing

Yes. But in – who knows? And let's say, all these other market segments slow down and as a consumer business in every half year, we can shift it. And we can shift quickly, okay. That's – currently, it's not a favor, but we can shift quickly. And by end of the year, maybe we grow Consumer business.

Tore Svanberg

Sounds good. And coming back to the data converter topic, new segment for you. What are some of the things that we should track for your success there? We all know it's very difficult to crack into that market. And are you going into that market really, really at the high end of data converter technology? And will that be the way for us to track your success there?

Michael Hsing

So far, yes, it's a very, very high-end product. And - but that's a new market segment. Like earlier I said – we said that we're going to ramping the data center very quickly, okay. Turn out to be – it wasn't the case, okay? So I don't want to predict that. But I know the technology is good and the test data showed we can be – we are far better than on the existing market of product.

Tore Svanberg

Great. Yes. I mean if you could even get the $100 million there, I'd be very impressed.

Michael Hsing

Oh, yes. Okay. It's a matter of time. I'm confident of that. And along the way, probably we learned [indiscernible] Yes, okay.

Tore Svanberg

Okay. Thank you.

Michael Hsing

All right. Okay.

Genevieve Cunningham

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

Bernie Blegen

Well, once again, I'd like to thank you all for joining us in this conference call, and look forward to talking to you again about our first quarter, which we'll likely hold in April. So thanks again, and have a nice day.