Monolithic Power Systems Inc (NASDAQ:MPWR)
Q2 2021 Earnings Call Transcript
July 27, 2021, 2:00 p.m PT, 5:00 p.m. ET

Call participants:

Genevieve Cunningham -- *Marketing Communications Manager*

Bernie Blegen -- *Vice President & Chief Financial Officer*

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

Joshua Buchalter -- *Cowen and Company, LLC, Research Division -- Analyst*

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

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

William Stein -- *Truist Securities, Inc. -- Analyst*

Rick Schafer -- *Oppenheimer & Co. Inc. -- Analyst*

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

Kevin Garrigan -- *Rosenblatt Securities Inc. -- Analyst*

Genevieve Cunningham:

Welcome everyone to the MPS second 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, CEO and founder of MPS and Bernie Blegen, VP and CFO. During this webinar, we will discuss our Q2 2021 financial results and guidance for Q3 2021 followed by Q&A session. Analysts, you are currently muted. If you wish to ask a question during the Q&A session, please click on the participants icon on the menu bar and then click the raise hand button.

In the course of today's webinar, we will make forward-looking statements and projections that involve risk and uncertainty, which could cause results to differ materially from management's current views and expectations. Please refer to the safe harbor statement contained in the earnings release published today. Risks, uncertainties, and other factors that could cause actual results to differ are identified in the safe harbor statements contained in the Q2 earnings release and in our SEC filings, including our form 10K filed on March 1st, 2021, and our form 10Q filed on May 10th, 2021, which are accessible through our website, www.monolithicpower.com. MPS assumes no obligation to update the information provided on today's call.

We will be discussing gross margin, operating expense, R&D and SG&A expense, operating income interest and other income, net income and earnings on both a GAAP and a non-GAAP basis. These non-GAAP financial measures are not prepared in accordance with GAAP and should not be considered as a

Greenthread Ex. 2018, p. 1 of 13
MPS v. Greenthread
IPR2024-00553

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 earnings release, which we have filed with the FCC. I would refer investors to the Q2 2020, Q1 2021 and Q2 2021 releases as well as to the reconciling tables that are posted on our website. Now I would like to turn the call over to Bernie Blegen.

Bernie Blegen:

Thanks, Gen. MPS achieved record second quarter revenue of $293.3 million, 15.3% higher than the first quarter of 2021 and 57.5% higher than the second quarter of 2020. This broad-based year-over-year revenue growth was result of our diversified growth strategy, technological innovation and investment in production capacity.

Turning now to our second quarter 2021 revenue by market.

Computing and storage revenue of $87.7 million increased 30.0% from the first quarter of 2021. The sequential revenue improvement reflected increased demand and market share gains for servers in data centers and notebooks. Computing and storage revenue represented 29.9% of MPS' second quarter 2021 revenue compared with 34.4% in the second quarter of 2020.

Second quarter consumer revenue of $76.1 million increased 14.9% from the first quarter of 2021. The sequential quarterly revenue increase reflected earlier than normal sales of gaming console products. Consumer revenue represented 25.9% of MPS' second quarter 2021 revenue compared with 25.6% in the second quarter of 2020.

Second quarter automotive revenue of $48.7 million increased 8.5% from the first quarter of 2021, primarily due to increased sales of infotainment products. Second quarter 2021 revenue was up 173.9% year-over-year. Automotive revenue represented 16.6% of MPS' second quarter 2021 revenue compared with 9.5% in the second quarter of 2020.

Second quarter 2021 industrial revenue of $43.3 million increased 8.9% from the first quarter of 2021, reflecting increased sales of products for power source applications. Industrial revenue represented 14.8% of our total second quarter 2021 revenue compared with 14.3% in the second quarter of 2020.

Second quarter 2021 communications revenue of $37.5 million was up 3.9% from the first quarter of 2021. Most of the sequential revenue increase was due to higher product sales for networking and wireless applications. Communication sales represented 12.8% of our total second quarter 2021 revenue compared with 16.2% in the second quarter of 2020.

Our sustainable above market growth is based on the following.

We have and are continuously investing in the expansion and diversification of our supply chain.

We accelerated the release of advanced products and solutions based on our new technologies.

Three, we have gained increased acceptance of our solutions with first tier customers globally.

And four, we continue to diversify and support a wider number of end product applications.

With our planned capacity expansion in place and as we release more parts into production, we are well positioned to accelerate our future revenue growth.

Moving now to a few comments on gross margin. GAAP gross margin was 56.0%, 60 basis points higher than the first quarter of 2021 and 90 basis points higher than the second quarter of 2020. Our GAAP operating income was $60.6 million compared to $46.1 million reported in the first quarter of 2021 and

Greenthread Ex. 2018, p. 2 of 13
MPS v. Greenthread
IPR2024-00553

$28.0 million reported in the second quarter of 2020. Non-GAAP gross margin in the second quarter of 2021 was 56.3%, up 50 basis points from the gross margin reported for the first quarter of 2021 and 60 basis points higher than the second quarter from a year ago. The increase in non-GAAP gross margin as a percent of revenue reflected lower proportional overhead costs. Our non-GAAP operating income was $94. 9 million compared to $75.8 million reported in the prior quarter and $53.0 million reported in the second quarter of 2020, representing a 79% year-over-year increase in operating income.

Let's review our operating expenses. Our GAAP operating expenses were $103.6 million in the second quarter of 2021 compared with $95.0 million in the first quarter of 2021 and $74.6 million in the second quarter of 2020. Our non-GAAP second quarter 2021 operating expenses were $70.3 million, up from the $66.2 million we spent in the first quarter of 2021 and up from the $50.7 million reported in the second quarter of 2020. The differences between non-GAAP operating expenses and GAAP operating expenses for the quarters discussed here are stock compensation expense and income or loss on an unfunded deferred compensation plan.

For the second quarter of 2021, total stock compensation expense, including approximately $885,000 charged to cost of goods sold, was $32.1 million compared with $28.6 million recorded in the first quarter of 2021. Switching to the bottom line, second quarter 2021 GAAP net income was $55.2 million or $1.16 per fully diluted share compared with $45.4 million or 95 cents per share in the first quarter of 2021 and $30.2 million or 64 cents per share in the second quarter of 2020. Q2 non-GAAP net income was $86.5 million or $1.81 per fully diluted share compared with $69.5 million or $1.46 per share in the first quarter of 2021 and $50.6 million or $1.08 per share in the second quarter of 2020. Fully diluted shares outstanding at the end of Q2 2021 were 47.8 million.

Now let's look at the balance sheet. Cash, cash equivalents and investments were $672.9 million at the end of the second quarter of 2021 compared to $641.6 million at the end of the first quarter of 2021. For the quarter, MPS generated operating cash flow of about $96.9 million compared with Q1 2021 operating cash flow of $77.1 million. Second quarter 2021 capital spending totaled $39.3 million.

Accounts receivable ended the second quarter of 2021 at $77.6 million representing 24 days of sales outstanding, which was six days lower than the 30 days reported at the end of the first quarter of 2021 and three days lower than the 27 days reported in the second quarter of 2020. Our internal inventories at the end of the second quarter of 2021 were $177.3 million up from $175.2 million at the end of the first quarter of 2021. Days of inventory of 125 days at the end of the second quarter of 2021 were 16 days lower than at the end of the first quarter of 2021.

Historically we have calculated days of inventory on hand as a function of the current quarter revenue. We believe comparing current inventory levels with the following quarter's revenue provides a better economic match. On this basis, you can see days of inventory of 117 days at the end of the second quarter of 2021 were seven days lower than the 124 days at the end of the first quarter of 2021 and two days lower than the 119 days at the end of the second quarter of 2020.

I would now like to turn to our outlook for the third quarter of 2021. We're forecasting Q3 revenue in the range of $309 to $321 million. Gross margin on both a GAAP and non-GAAP basis is expected to include a one-time benefit from a four million dollar litigation settlement. Including this benefit, GAAP gross margin will be in the range of 57.3% to 57.9%. And non-GAAP gross margin will be in a range of 57.6% to 58.2%. Excluding this one-time event, non-GAAP gross margin will be in the range of 56.3% to 56.9%.

Total stock based compensation expense should be in the range of $31.2 million to $33.2 million, including approximately $950,000 that would be charged to cost of goods sold. GAAP, R&D, and SG&A expenses should be between $104.1 million and $108.1 million. Non-GAAP R&D and SG& A expenses will be in the range of $73.9 million to $75.9 million. Litigation expense should range between 2.3 and

$2.7 million. Interest income is expected range from 1.0 to $1.4 million. Fully diluted shares to be in the range of 47.4 to 48.4 million shares.

In conclusion, with our planned capacity expansion in place and as we release more parts into production, we are well positioned to accelerate our future revenue growth. I will now open up the webinar for questions.

Genevieve Cunningham:

Thank you, Bernie. Analysts, I would now like to begin our Q&A session. As a reminder, if you would like to ask a question, please click on the participants icon on the menu bar and then click the raise hand button. Our first question comes from Tore Svanberg of Stifel. Tore, your line is now open. Yes.

Tore Svanberg:

Yes. Thank you, Michael. Bernie, congrats again on another strong and record quarter. I was hoping you could update us on your capacity plans. I know you've done a pretty good job here the last 18 months. Your inventory seems to be in good shape, perhaps a bit at the lower end. But yeah, maybe you could help us understand a little bit more what you specifically are doing on the capacity side.

Michael Hsing:

Thanks, Tore. Our capacities, as always, in the past three or four years, and we keep expanding, and now we continue that. However, we do have capacities of over $2 billion dollars before the middle of next year. So we have enough capacity for us to grow. And then now, we have just quantify more product and release to productions, and ultimately, in our customer's hand.

Bernie Blegen:

And at the expense of repeating ourselves, Tore, you recall that last year we brought up a 12 inch fab, and this year we've brought up an eight inch fab, which has already contributing to inventory. So in both cases, what we're continuing to do is expand out by qualifying more parts so that we will be able to meet the a $2 billion level by the middle of next year.

Tore Svanberg:

Very good. Thank you for that. And your cash balance has doubled here the last couple of years, and it's now at 670 million. Obviously, it's a luxury issue to have. What do you intend to do with that cash? Because obviously, you don't need that much. Do you plan to return it more back to shareholders? Are you potentially looking at M&A? The reason I'm asking this is because it's so high now. I know historically, you've grown your business organically, but it's so high now that I just have to ask the question what you intend to do with it.

Michael Hsing:

That's a good question. As a company, I keep saying that we're transforming a company from a semiconductor to more solution providers. So we can utilize a cash much better than we can in the past. And the strategy is still, it's, okay, we will buy in technology companies, which comparable to MPS revenues, MPS as a general market coverage. On the other hand, we are also consistently raising dividends, and that's our strategy, but we're not excluding buyback shares.

Tore Svanberg:

Great. Thank you very much. I'll be disciplined and jump back in line. Thank you.

Genevieve Cunningham:

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

Quinn Bolton:

Hey, guys. Hope you can hear me, but let me echo my congratulations on the strong revenue and the very nice gross and operating margins. Bernie, I guess you teased us there at the end of your script, saying that you've got the capacity now to support an acceleration in revenue growth. If I look at revenue last year, you did about 35% growth. Looks like this year, you might do better than that. I'm just trying to interpret when you talk about an acceleration in revenue growth, what should we read into that?

Bernie Blegen:

Yeah. I think that you're familiar with our model, which is to outperform the industry by 10 to 15 percentage points. Obviously, that's a model, that's a guideline, and there are certain periods where we have the right factors, both strategically as well as from a market perspective, that have allowed us to do better and sometimes not as well as that model. So for example, if you look at last year's results, you could argue that at 34.5% growth, that we exceeded the market, which was right about five to 8%, depending on what you're looking at, by somewhere in the neighborhood of 15, 17 percentage points. And so we look at that as well above our model. In the current year, obviously, we only guide to Q3, but it's not unrealistic to expect that within the range of possibilities that we could match that performance, or in fact do just a little bit better. So what we're trying to observe here is that in this two, three year period, we're actually benefiting from a lot of factors that have us exceeding what our normal model is.

Quinn Bolton:

Great. Thanks for that additional color. Bernie, I also wanted to ask on the compute and storage business up 30% sequentially, I think you've mentioned that it was share gains in both servers, as well as notebooks. On the notebook side, I thought you already had pretty high share at the high end of the notebook market. So I'm wondering if you could comment, are you starting to see share gains and maybe more mainstream or even low end or Chromebooks on the notebook side? And is there any notable areas of share gains on servers? Thank you.

Michael Hsing:

Yeah, so we do have some a shared gain across the board in the mobile market segment. As our technologies advance, which is lower the cost, our bit-size become much smaller. The lower costs allow MPS enters a more lower notebooks segment.

Bernie Blegen:

And then as far as server, we've been fairly consistent in articulating our strategy as far as being able to grow our market position with each succeeding next generation, particularly Intel and AMD products. Not limited to that though, but also in 48 volts and with GPUs. So it really expresses the point that we're ratcheting up in share gains within the Intel family, but also branching out into these other opportunities.

Quinn Bolton:

Great. Thank you, and congrats again.

Bernie Blegen:

Thank you.

Genevieve Cunningham:

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

Rick Schafer:

Oh, thank you, and I'll add my congratulations. You just keep amazing everybody, I think. I'll ask one more capacity question, if that's okay, and it's coming from a spending standpoint. Can you, Bernie, maybe remind us what the outlook is for spending, just as a general rule, as a percent of revenue, maybe starting next year once all the new capacity is installed? I think you're getting so many questions because everybody sees the kind of growth you guys are putting up. And it's awesome that you have 2 billion in capacity onboard by this time next year. But at this rate, it's only in a couple of years, you're going to be bumping your head on by. I'm curious because how soon would you have to look to begin ramping incremental capacity again? What might that impact beyond on spending? I'm curious what, just hypothetically, in two years, three years time, if you're at 2 billion top line, what would gross margin look like, for instance?

Bernie Blegen:

Rick, thank you, and a good question. Something that's really important to comment on here is that a lot of companies and a lot of analysts and a lot of investors are focused on capacity as if this is a new aspect of the semiconductor business. In fact, capacity is something that we have been managing for the 10 years that I've been here and before that. It's an integral component to our growth strategy. The way that we've been doing it is sequentially adding new fabs and also assembly houses and testing capacity alongside of that to accommodate, to be in front of what our expected revenue growth. So while we have made a public comment on the fabs that we've invested in to date, we're still continuing on with ongoing relationships in order to secure more fab capacity for the future in order to accommodate that growth beyond $2 billion.

Michael Hsing:

Yeah. As I said earlier, we'll keep expanding. We'll never stop, but sometimes faster, other times it's slower. Other than the physical capacity itself, we have to increase a lot of head counts, and the MPS is very, very linked. We are hiring a lot of people.

Rick Schafer:

Thanks. Sorry, I was having some trouble on my end. Thanks, Michael, and thanks, Bernie. A quick question on auto, if I could. By my method, it's on track to maybe grow in the 80% or better range this year for you guys. I'm curious how much of that is being either directly or indirectly limited by supply, and if you could give a sense of, of what growth could be or talk about maybe demand that's pushed and how that ultimately would show up in the model, say, next year. I don't know if you could maybe quantify or talk about your auto backlog and maybe where it is today.

Michael Hsing:

Greenthread Ex. 2018, p. 6 of 13
MPS v. Greenthread
IPR2024-00553

Maybe Bernie can. This year, you said that-you mentioned that whether the automotive product is limited by the capacities. The answer is it's not as much as other segments because an automotive company, they give us long lead times. We prepared the last year. The last year, our customers didn't consume that many of our products and it all translated to this year. We'll be able to ship them now.

Bernie Blegen:

Well, one of the aspects of automotive that's getting a lot of attention in the press has to do with the fact of electronic component shortages that are shutting down plants or limiting their ability in order to kit a car and assemble it. As Michael just said, we're actually not capacity constrained there. We are meeting all demand from them.

What's been interesting is one of the reasons that automotive got into this bind is because they were working with the just-in-time inventory model. I think that they've learned from that, that when the parts, the electronic components are available, that they will stock them, even though they don't have a complete kit to build the car.

Now in our conversations and feedback that we're getting, is they're actually only trying to satisfy real demand, but that it's the timing of when the build plan, when they'll have the complete kit that they can then build the cars. It's something that we want to monitor because there's been no change in the ordering pattern or in our shipment schedule versus expectations because of the other limitations in automotive.

Michael Hsing:

Yeah. I might as well edit. Okay? About a year or a year and a half ago, our inventory was at an all time high. That was one of the reasons why we do that, because we're a newcomer in the automotive industry.

Even though with this type of a current revenue, we are still very, very little the percentage of the market. As a clear newcomer, you don't want to upset the customers that you don't have a product. All of this, what we do, to all these key customers, we have the inventory, even though we don't have a clear forecast. Now it's really benefited us and we gained lot more designing activities because our competitor could not ship a product.

Rick Schafer:

Got it. Thanks for the color.

Michael Hsing:

Okay. All right.

Genevieve Cunningham:

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

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

William Stein:

Great. Thanks for taking my question. I hope you can hear me. First a maintenance question; with regard to your capacity and inventory which you've already explained quite a bit about on this call, are you supply constrained at this time? Are you able to meet all the demand, whether it's upside or maybe customers stretching and trying to build a bit of inventory? Or are you, in fact, capacity constrained and are lead times extended as you're communicating them to customers? Then I have a bigger question, a more strategic question after that.

Michael Hsing:

Yeah, let me explain that way. Okay. We have less capacity constraint compared to a half year ago also. However, as customers, after you qualify all of these new facts, we have a couple of months delayed of qualifying these products, to qualifying the fab, it's not exactly science. You use different supply, different equipment, and different materials. All these issues have an effect of how you qualify products in the end.

This time, we just have to release a lot of existing product from different fabs. To answer your question, yeah, there is a constraint. We have a lot more orders we couldn't fulfill, but just only a couple of months late.

Bernie Blegen:

Again, what we're trying to do here is make sure that we're servicing real demand and not building up inventory either in the channel or on our customers' shelves. What we've done is we actually have very transparent relationships with our customers so that we make sure that we're in touch with their business, sufficient to be able to make those trade-offs.

William Stein:

Great. Thanks. Then the followup, if I can, or the more strategic question; Michael, you referred to this transition from a semi-company to a technology solutions company. It's something I've written about, specifically the transition from semi-devices to modules. Any quantification around this, perhaps it relates to the E-commerce strategy as well? Any update in that area would be very helpful. Thank you.

Michael Hsing:

Yeah. Thanks for asking for that question. Now is overwhelming by the revenue growth in the company, not only from the analyst stuff, from the outside the company. Inside the company, it's overwhelming by the revenue growth, the allocations, the product allocations and a lot of strategic things. It's less pronounced than those.

The module, you're absolutely right. The module business, as a solution, transforming to a module company as we're transitioning from a semiconductor to a solution company. The E-commerce, we have teams and finally, we have organized a product line. I know the activities in the last quarter also, it's quadrupled. The revenue is still small, but it's in the millions of dollars. It's more than a million dollars, somewhere of $30, $40 million.

William Stein:

With the modules?

Michael Hsing:

Greenthread Ex. 2018, p. 8 of 13
MPS v. Greenthread
IPR2024-00553

Yeah, with a module and the service. It's growing, as you recall, about five years ago or three years ago, it's almost zero. Yeah. Four years ago, almost zero down when we started that. We'll continue to focus on that. I truly believe that's our future.

William Stein:

Thanks and congrats.

Michael Hsing:

Okay. Thank you.

Genevieve Cunningham:

Our next question is from Joshua Buchalter of Cowen. Joshua, your line is now open.

Joshua Buchalter:

Hey guys, congrats on the results and thanks for taking my question. Gross margins in both the print admin guide were meaningfully higher than your usual 10 to 20 basis point trajectory. Can you elaborate on the key drivers of the leverage there, and I guess, speak to the sustainability? Was it driven by mix or something on the cost side, getting wafers through your recently ramped fabs? Thanks.

Bernie Blegen:

Sure. I think that we've discussed in the past that again, our model is that we want to be able to grow gross margin at 10 to 20 basis points, sequentially, over the long haul. We've demonstrated very good consistency in being able to do that. But much like I was describing before, this is an unusual period of growth for the company, both in terms of how fast the revenue is growing, and then obviously as we described in the narrative, it was that the overhead, which would be direct spending or inventory provisions or anything like that, is not growing at the same rate as the revenue growth. That's where we're getting the near-term leverage.

As we look out, obviously we don't want to create an expectation that we're going to be able to grow at the same rate, but by the same token, we have established another floor level for what we expect sustainable gross margin to be.

Joshua Buchalter:

That's helpful. Thank you. Then also on the model, I guess, you mentioned the consumer in consoles was a bit accelerated versus your normal seasonality. Can you remind us what you would expect the shape of the console business to look like in the second half? Maybe just give us some clues on revenue growth by segment. Thank you.

Bernie Blegen:

Sure. Oh, go ahead.

Michael Hsing:

I don't know if you can call it normal. I can't think of a normal anymore. Regarding to a console business, yes, we're designing and we're on the next design. I think the business continues. I think that you have better judgment than us of what's the seasonality for the console.

Bernie Blegen:

I think that Michael makes a very strong point there, is that we've had so many puts and takes and different lines of businesses that have been added, that the rule of thumb is not as applicable as it might've been back in 2018 or 2019.

What I would comment on is that we believe that we are optimizing across all of our different end markets. Again, really the strength of the model is in the diversification, whereas a lot of the traditional seasonality would have been tied to a consumer, for example. Now we have a much higher percentage of our business that is tied to computing, automotive and industrial, and they don't necessarily recognize the same level of seasonality.

But then to complete the question, I think if you look at the near term growth, obviously the current year has benefited significantly from automotive and compute and storage in particular. We believe that going forward, automotive along with communications, should be our longer term drivers.

Joshua Buchalter:

Understood, thanks guys.

Genevieve Cunningham:

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

Tore Svanberg:

Thank you. I just have a few follow-up questions. First of all, I have a question on your ASPs, which is obviously tied to your revenue growth. So now that you are growing in the 50% range, how much of that is units versus ASPs?

Bernie Blegen:

Yeah, I would say if you look at last year, and last year is representative of what we're doing in 2021, of the 34.5% growth, 25% of that was tied to volume, 10% was tied to price, and I think when Michael talks about the solutions business, you're looking at previously selling an individual piece of Silicon for 20 to 25 cents, and now, depending on the module, we can get between $1 to $3. And what we're looking to be able to do is design complete integrated solutions for different end applications where those will be able to achieve, the total cost for that solution can be somewhere between $60 to $100. So there's the ASP on the individual component, but more importantly it's having that attach rate with the total solution.

Tore Svanberg:

Very good. And talking about systems, how is your motor business doing? I know that's probably the highest ASP products you have, so how's that business going?

Michael Hsing:

It's doing well, but the rest of the company's grown much faster. It's still small and that you can't break out a percentage yet. But I think that we will have given more category of our product roles as we divide into a more finer product line.

Tore Svanberg:

Very good.

Michael Hsing:

And we will that number later.

Tore Svanberg:

Sounds good. Michael, and last one, about a year ago, you talked about getting into the medical end market. Any updates there? I mean, I know it's still probably very, very small as a percentage of revenue, but just trying to understand how fast your traction is in the medical end market.

Michael Hsing:

Yeah. Okay, we have our product now. Well, we have several things. We have ultrasound and the ultrasounds we do generate revenue. We see the revenue now. The other one is the x-ray machines, x-rays, and we're evaluating the first silicons. Our design side is flawless, but we have some issue with the fab. But that's a very minor issue. We will be able to solve that problem. And it is outstanding. Thank you for bringing it up. Performance is 5 or 6X better than the existing solutions. So the image is a lot more cleaner now than we could deliver. So I think the customers are waiting and we're very excited.

Bernie Blegen:

One other comment to add here is the technology that we're referring to here is related to our high performance or precision analog.

Michael Hsing:

The data converters.

Bernie Blegen:

Converters, right. And this has been something that we've been working on for, I think, about two and a half, three years now.

Michael Hsing:

Two and a half years.

Bernie Blegen:

Two and a half years. And I think what is really exciting is that this is an incredible opportunity and we're very close to being able to declare that it's commercially viable in the market. So it's not just the medical which is the first end market that we're going after with this technology, but the other opportunities this opens up for us.

Michael Hsing:

But it's the same technology, a similar technology, that we'll be able to use in the telecommunication side.

Tore Svanberg:

Sounds good. Congrats again on the stellar results. Thank you so much.

Greenthread Ex. 2018, p. 11 of 13
MPS v. Greenthread
IPR2024-00553

Michael Hsing:

Thank you.

Genevieve Cunningham:

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

Kevin Garrigan:

Hi, guys. Congrats on the quarter and thanks for taking my question. Just a quick one for me. I was wondering if you could tell us what percentage of your business or percentage of backlog is based on three year newer products. I think last quarter, Bernie, you had said new products introduced in the last three years were about 37% of sales, so just wondering if this was in the same range this quarter?

Bernie Blegen:

Yeah. The reason that we used that stat on a one-time basis was to really give an order of magnitude to just how dynamic this new product introduction is as a component to our growth. So right now, obviously, in such a short one quarter term, it hasn't changed a whole lot up or down. But it's really not something that we want to be reporting on, on an ongoing basis.

Kevin Garrigan:

Yeah, I think the last time we reported it, it was at 37%?

Bernie Blegen:

Yeah, it was 37%.

Michael Hsing:

I actually went back to looked at it and we actually cannibalized ourself.

Bernie Blegen:

Mm-hmm (affirmative).

Michael Hsing:

And I think that's a better way to look at it rather than other big guys that eat us alive. Another thing is that we cannibalized a part of it [inaudible] I think it's somewhere in the 10% range. Okay. All these new products, we cannibalized it, and that's why the number is so high.

Bernie Blegen:

But I would say that when there's cannibalization involved, you can bet that for market share gains against our peer companies, that's really the leverageable part of this story.

Kevin Garrigan:

Got it. That's helpful. Thanks, guys.

Michael Hsing:

Thank you.

Bernie Blegen:

Thank you.

Genevieve Cunningham:

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

Quinn Bolton:

Hey, guys. Just wanted to follow up on Josh's question on gross margins. I know in the near term better overhead absorption is driving a better margins, but if you guys have access to capacity and most of your competitors are getting strained, I'm wondering, is there any room for you to get a little bit more to raise pricing in certain segments to take advantage of that capacity support? Or will you just continue of put your foot on the pedal and try to drive as much revenue through that additional capacity to support rather than trying to do it through pricing?

Michael Hsing:

Well yeah, MPS is still has the smallest analog semi-conductor business and, at the same time, we want to deliver a consistent result. And so now you see the margin even in this period, we don't fluctuate a lot, because we just pass on our cost to our customers. And we don't randomly just a raise because now there's a shortage we can gouge our price. That will affect the longterm relationship with our customers. And so we just maintain that and maintain our margin. I think this strategy fits everything for us.

Quinn Bolton:

Got it. Thank you.

Genevieve Cunningham:

If there are any follow-up questions, please click the raise hand button. As there are no further questions, I would now like to turn the webinar back over to Bernie.

Bernie Blegen:

I'd like to thank you all for joining us for this webinar and look forward to talking with you again during our third quarter webinar, which will likely be at the end of October. Thank you and have a nice day.

Michael Hsing:

Have a nice day.