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MPWR - Q1 2020 Monolithic Power Systems Inc Earnings Call

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OVERVIEW:

Co. reported 1Q20 revenue of \$165.8m and GAAP net income of \$35.8m or \$0.77 per fully diluted share. Expects 2Q20 revenue to be \$167-173m.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Monolithic Power Systems, Inc. First Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

Now it's my pleasure to turn the call to Bernie Blegen, Chief Financial Officer.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Thank you. Good afternoon, and welcome to the First Quarter 2020 Monolithic Power Systems' Conference Call. Michael Hsing, CEO and Founder of MPS is with me on today's call.

In the course of today's conference call, we will make forward-looking statements and projections that involve risk and uncertainty which could cause results to differ materially from management's current views and expectations.

Please refer to the safe harbor statement contained in the earnings release published today. Risks, uncertainties and other factors that could cause actual results to differ are identified in the safe harbor statements contained in the Q1 earnings release and in our SEC filings, including our Form 10-K filed on February 28, 2020, which is 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 the 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 financial 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 SEC. I would refer investors to the Q1 2019, Q4 2019 and Q1 2020 releases as well as to the reconciling tables that are posted on our website.



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

Before going through our financial results, I would like to acknowledge the difficult circumstances we are all operating under. At MPS, we have taken all necessary precautions to ensure the safety of our employees, our suppliers and our customers. At the same time, we remain focused on the need to execute to the highest level possible.

Our worldwide efforts are reflected in our continuing level of innovation and customer support. In response to the news of extreme shortages of medical equipment, MPS rose to the occasion to fight the global pandemic. As described in our recent press release, MPS developed and assembled an emergency ventilator prototype in a matter of days, leveraging a MIT open source design concept.

We demonstrated our technological superiority and deep system application knowledge to showcase our capability to advance from a component provider to a solution provider in a short period of time. We believe we can help our customers to do the same by taking advantage of MPS' vast and diversified product portfolio, which is highly programmable, flexible and feature rich.

We are also encouraged by the excitement we have received from our existing and potential customers that will lead to many promising opportunities in the medical device industry.

Turning now to our financial results. MPS posted record first quarter revenue of \$165.8 million, 17.3% higher than the comparable quarter in 2019. MPS continues to benefit from our technology leadership and diversified multimarket strategy.

Looking at our revenue by market. In our computing and storage market, first quarter 2020 revenue of \$52.0 million increased \$12.8 million or 32.6% year-over-year. First quarter 2020 computing and storage revenue represented 31.3% of MPS' first quarter 2020 revenue compared with 27.7% in the first quarter of 2019. The year-over-year revenue increase primarily reflected sales growth for cloud-based servers and storage.

First quarter 2020 communications revenue of \$27.9 million rose \$5.7 million or 25.6% from the first quarter of 2019. The year-over-year revenue increase primarily reflected higher 5G networking sales.

Communications revenue represented 16.8% of MPS' first quarter 2020 revenue compared with 15.7% in the first quarter of 2019. First quarter 2020 industrial revenue of \$25.2 million increased 18.3% from the first quarter of 2019 and accounted for 15.2% of our total first quarter revenue. The increase over the first quarter of 2019 primarily reflected gains in smart meters and security applications.

First quarter 2020 automotive revenue of \$23.3 million grew 13.6% over the same period of 2019, representing 14.1% of MPS' first quarter 2020 revenue. This growth primarily represented increased sales of infotainment, safety and connectivity application products.

First quarter of 2020 revenue from consumer markets of \$37.4 million decreased \$700,000 or 1.9% from the same period of 2019. The year-over-year revenue decrease reflected continuing reductions in demand for set-top boxes and flat panel TVs.

Consumer revenue represented 22.6% of our Q1 revenue compared with 27.0% contribution in the first quarter of 2019. GAAP gross margin was 55.2%, 10 basis points higher than the fourth quarter of 2019 and flat with the first quarter of 2019. Our GAAP operating income was \$31.0 million compared with \$30.7 million reported in the fourth quarter of 2019. For the first quarter of 2020, non-GAAP gross margin was 55.5%, matching the fourth quarter of 2019, but 10 basis points lower than the first quarter of 2019.

Our non-GAAP operating income was \$45.9 million compared to \$50.8 million reported in the fourth quarter of 2019. Our GAAP operating expenses were \$60.5 million in the first quarter of 2020 compared with \$61.2 million in the fourth quarter of 2019. Our non-GAAP first quarter 2020 operating expenses were \$46.1 million, up from the \$41.8 million reported in the fourth quarter of 2019. This increase primarily reflected higher Q1 payroll taxes and increased investment in new products.



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The difference 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 first quarter of 2020, total stock compensation expense, including approximately \$600,000 charged to cost of goods sold, was \$18.6 million compared with \$18.7 million recorded in the fourth quarter of 2019.

Switching to the bottom line. First quarter 2020 GAAP net income was \$35.8 million or \$0.77 per fully diluted share compared with \$32.4 million or \$0.70 per share in the fourth quarter of 2019. Our Q1 2020 tax provision of minus 22% was due to a onetime discrete tax benefit resulting from stock compensation. First quarter 2020 non-GAAP net income was \$44.3 million or \$0.95 per fully diluted share compared with \$48.4 million or \$1.04 per fully diluted share in the fourth quarter of 2019. Fully diluted shares outstanding at the end of Q1 2020 were 46.7 million.

Now let's look at the balance sheet. Cash, cash equivalents and investments were \$492.3 million at the end of the first quarter of 2020 compared with \$458.5 million at the end of the fourth quarter of 2019. For the quarter, MPS generated operating cash flow of about \$51.4 million compared with operating cash flow of \$61.0 million in the fourth quarter of 2019. First quarter capital -- first quarter 2020 capital spending totaled \$10 million.

Accounts receivable ended the first quarter of 2020 at \$54.3 million or 30 days of sales outstanding up 1 day from 29 days at the end of the fourth quarter of 2019. Our internal inventories at the end of the first quarter of 2020 were \$131.5 million, up from the \$127.5 million at the end of the fourth quarter of 2019. Days of inventory increased to 161 days at the end of Q1 2020 compared with 155 days at the end of the fourth quarter of 2019.

I would now like to turn to our outlook for the second quarter of 2020. We are forecasting Q2 revenue in the range of \$167 million to \$173 million. We also expect the following: GAAP gross margin in the range of 55.0% to 55.6%. Non-GAAP gross margin in the range of 55.3% to 55.9%. GAAP, R&D and SG&A expenses between \$60.9 million and \$64.9 million.

Non-GAAP R&D and SG&A expenses to be in the range of \$43.4 to \$45.4 million. This estimate excludes stock compensation and litigation expenses. Total stock-based compensation expense of \$18.1 million to \$20.1 million, including approximately \$600,000 that would be charged to cost of goods sold. Litigation expenses are expected to range between \$1.7 million to \$2.1 million.

Interest and other income is expected to range from \$1.7 million to \$1.9 million before foreign exchange gains or losses. Fully diluted shares to be in the range of 45.8 million to 47.8 million shares.

In conclusion, we are not immune to the macroeconomic reality. But our long-term growth prospects remain intact. We will continue to execute to our plan and are prepared to manage the volatility of future customer demand.

I will now open the phone lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Tore Svanberg with Stifel.

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

And congratulations on these results in a very challenging environment. First question, and maybe this is a bit philosophical, but innovative companies tend to gain a lot of share during a downturn. We're obviously in the downturn. I was just wondering, Michael, if there are certain things that you're looking at to obviously come out of this even stronger than going into this.



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Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Oh, Tore. If you remember the history, we tended to (technical difficulty) about --

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Michael, you're breaking up. Michael, you're breaking up, unfortunately.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Can you hear me?

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

You might go to the handset instead of the speaker. There you go. You're fine.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

It's a -- can you hear me now?

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Yes, we can.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes.

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Much better.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

All right. Okay. Yes, as I said earlier, Tore as you remember, in MPS' history because you cover those things day 1 of MPS become a public company. And somehow, we tend to do that. And in the downturns, we tend to do well and up relatively in a normal times and we are just as good as I just say everybody else, but the percentage of growth tend to be slightly slower or slightly lower. And how we can achieve that, I think is that we don't really -- our target is many years out. And regardless of downturns or upturns, we are very consistent. So it's not like other company maybe because they have all the large market shares, and they tend to react to shorter terms. So if you can think about it and philosophically, and we will tend to do well during the downturn.

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Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

That's very helpful. And on a similar topic, but more specific, your e-commerce business, I do appreciate it's taken a while to get that up and running. But in this sort of virtual environment we live in, I would think that a business like that would be very, very welcome. So maybe you could elaborate a little bit on what's been going on that front.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Well, as I said, okay, in the last -- as I said in the last quarter, we said that e-commerce we kind of drop a hook in Pacific Ocean. There's a lot of fish there, but we didn't hope that too many things out of that. So we're still in the early stage. And however, in the last couple of months, and we launched ventilators, that attracts so many new customers or new potential customers and it overwhelmed us. And it's kind of a surprise to us. I think that we are a small company. We are a relatively new company, and people don't know us, just we need the time. And we need to learn how to do it. Okay.

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

That's great. One last question for Bernie. Bernie, you talked about the computing and storage business being up quite dramatically year-over-year. Some other players in the space, obviously, are talking about similar strength. Did you get a sense that there's some pull-in activity going on there, Intel, for instance, they talk about, obviously, the second half being weaker than the first half. Any color you can add on that would be great.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Sure. I think we're seeing a very -- a pattern that's probably consistent with other companies who have exposure to either 5G or data center or to notebooks as there's continuing investment in order to service the work from home aspect of the economy right now. So there has been a lot of activity, particularly in storage, particularly in data center, and we're seeing a continuing level of investment also in 5G. Again, as with any expectation of what the second half would look like, we're -- obviously, this is a challenging environment, and we normally only forecast 1 quarter ahead.

Operator

Our next question comes from Matt Ramsay with Cowen.

Joshua Louis Buchalter - *Cowen and Company, LLC, Research Division - VP & Research Associate*

This is Josh Buchalter on behalf of Matt. Hope everyone is hanging in there okay. I know you guys love questions on inventories, but given all the moving parts on the supply and demand side, can you update us on how you feel and your comfort level after last quarter you sort of lamented bringing levels down? Would be helpful to hear an update on your visibility into both your on books and in the channel?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Well, okay. We -- in the last couple of quarters, we said like we -- our bookings are very good and (inaudible) was very good in 2 years. And we have inventory problems, that's the problems related to (inaudible) and deliver to our customers up and above. And this issues, and this growth of this year, the growth of this year, we didn't see it is from the last couple of quarters, we've seen a lot earlier. And -- but our macro market as they may have some certainty, and we were so criticized, we have more inventory. So last December, we took a step and reduced our inventory. And now -- and we barely -- we can do up in beyond our forecast. So in the condition is even more murkier now, and we have to just react accordingly.



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Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

And if I could add to Michael's good point there is that through the challenges that we're facing in the economy right now that, as you can see that we continue to operate at nearly 100% capacity, both in terms of our supply chain as well as our internal operations. Now, I don't want to minimize those challenges. And in any way, take away from a lot of very difficult and hard effort on the part of a lot of employees that made that all happen. But so far, we've had minimal disruption to the supply chain.

Joshua Louis Buchalter - *Cowen and Company, LLC, Research Division - VP & Research Associate*

I appreciate all the color. And then as my follow-up, are you able to provide any color on your expectations by segment for the second quarter? Congratulations on the stellar results.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Sure. I can take this one quickly. On the numbers front -- is responded to the earlier question -- is that I believe that much of the growth that we expect to enjoy should come from the computing and storage as well as in 5G. There is a weakening in demand in traditional consumer and also in automotive.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Here is -- I might as well -- as [add it] okay. We try to have a very diverse growth. And my job is if I did -- if I do the best is -- [if you guys] not to know which segment is the growth. And we want to so diversified and you don't know which side, which one. And every [week] we occupy very small percentage of each market. And look at the consumers. And actually, within the consumer, there's a lot of fundamental shift. We shift from traditional TV set-top box and which still have some percentage. And within that, we have a huge change, [we choosing] to a much higher high end of consumer products and as well as the Internet of Things.

Operator

Our next question comes from Quinn Bolton with Needham & Company.

Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

Let me offer my congratulations on the nice results and outlook. You guys are significantly outperforming a number of the analog peers sequentially and certainly year-over-year. And I think that, that we've seen a number of the analog peers talk about in their forecast. I think they refer to seeing some customers buying ahead or building inventory. And just wondering if you might be able to address that specifically on the compute and 5G side. I know you mentioned that auto and the consumer is softening. And so maybe just kind of go through just whether you think there is any buy ahead activity that may be influencing second quarter guidance? And then I've got a follow-up.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes. And of course, we're concerned. And it's like a toilet paper effect, right? And whether and just a few months ago, all the shelves -- the toilet papers are gone. I mean -- and whether we have -- see the same kind of effect or not, we really don't know. And some of the areas and like in the PCs, and the data centers have a surge. And -- but we kind of expected that and other ones in a consumer area and is obviously kind of -- and it's actually slower than our expectations. But we have to be quick on the feet, and we have to react quickly. And in the meantime, we ship as much as we can.



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Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. And then just looking in that data center business, I think Intel has recently sort of canceled the Cooper Lake processor generation to focus on the 10-nanometer Ice Lake for launch late this year. Just wondering if that's had any impact on the Whitley ramp as you see it? Or are you seeing pretty good design activity, either for existing Purley systems or the initial ramp of Whitley just over the balance of the year?

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes, good question. So our experience has been showing that we're receiving the same level of customer engagement and that -- going back to Michael's point about Q2, that the level of order momentum has continued unabated regardless of the product change, the change in their product cycle. So at this point, we may not have the full benefit of how end demand will be shaped by this change, but I don't see any early indicators that give me pause. And one other thing to make specific is going back to Michael's point on being diversified the business model is not dependent on any individual product launch or the timing. So as I said, that's the advantage of our diversified portfolio.

Operator

Our next question comes from Chris Caso with Raymond James.

Christopher Caso - *Raymond James & Associates, Inc., Research Division - Research Analyst*

First question is just regarding the product cycles for the year. And I'd imagine, much like last year, there's a certain part of the business, a large part of the business, which is just driven by product cycles, getting customer designs out the door and another portion of it, which is related to run rate business. So perhaps that might be affected by downtick in demand. Could you characterize the business, kind of what parts would be more driven by product cycles? What parts would be driven more by run rate demand and take a look and give us some sense of how that plays out into the second half?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

The second half, (inaudible) -- it's not just a philosophical rate, it's not very clear, and -- but our customers' demand is as hard as ever and -- but it's -- we designed it in the -- we engage our customers in a variety of segments. And so when they step up and it's kind of very short notice, a few months. And when they test the market, the market is reacting well, so they have a huge ramp. And so that's why we need enough inventory to support these new product ramp. And to answer your question, which particular market segments is, in the last couple of months, is the total ship target, the engagement with the customers, the total [ship] will be in the medical field now. In a lot of parts and a lot of inquiries and all these things are particularly helped by the ventilator is totally to our surprise. And at the same times, we didn't expect the computing ramp has this much, okay, and it's just -- particularly in the memory side and memory power, what is that, Bernie, what is that?

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

SSD.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes, so that's our scenario now. And going forward, we're not very clear. And I know that if the new trend is that you can work from home and you can work remotely. And the cloud computing, the cloud, the data center, the communication will keep going on, and we'll accelerate.



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Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

I'm sorry, I had just 2 small things to add to that is that on the notebooks, seasonally, those are driven where you have a high Q3 and Q4, and then it tails off. But we've seen nothing in the sort of the -- aside from cyclical changes there. And then obviously, we have a gaming console that we'll start to ramp here in the end of Q2.

Christopher Caso - *Raymond James & Associates, Inc., Research Division - Research Analyst*

That's helpful. As a follow-up, you talked about qualifying some new capacity on 300 millimeter into the second half. Could you give us an update on that? And in the current environment, has there been any change to your plans or your need for the -- that capacity, either greater or less?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes. Okay. If we see some push out of this above and beyond. And if they don't have those push, we're even in deep troubles. And in terms of a customer relationship, not in terms of delivering the numbers. And we are working very hard with -- we try very hard to bring up another fabs. And as you know, this is not like overnight, okay? At least take the half years. And I think we can meet our demand and qualify some of the high runners.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes, we should be able to qualify the high runners before the end of this year and actually be shipping from that fab.

Operator

Our next question comes from William Stein with SunTrust.

William Stein - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Michael and Bernie, congrats on the good result and outlook. Michael, you mentioned at the start of the call, a transition from a component to a solutions company, and you highlighted the ventilator as an example. But at the Analyst Day, you also showed several things that looked like a precursor to this in a way, not only eMotion, but these programmable modules. And I wonder if there's anything more sort of quantitative that you could disclose to us in terms of revenue or growth or designs or orders as it relates to that, what we might describe as a transition or a new leg of growth to the business?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes. We don't -- we haven't really prepared a qualitative numbers to [use]. And as business, that type of a business [keep people sharper], we have to think about how we disclose very accurately to our investors. And it is clearly that trend, okay, and we want to make our solutions -- our product, a chip-based solutions is really ease of use. That's the trend. And to a lot of like power supply, a lot of motor controls, and okay, eMotion controls. And even for the power supplies for the data center, these -- a lot of technology are maturing, okay, is what is on top of it, it's really a plug-in-play solutions. And you want to take away all the design effort from our customers.

And in terms of maybe Bernie, you can say what is -- our module is doing really well, right? Our modules, and if we're talking about only power modules, so we're doing -- we -- from 2, 3 years ago, like in the single low-digit million dollars of sales. We now at least of \$35 million, \$40 million.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes.

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Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

And last year, and that number is great. This is the fastest growth in percentage-wise in MPS' revenue [stream].

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

I think that I'd probably add to that, if I can, that Michael is exactly right, that we haven't really articulated the financial model where we can quantify it in a way that would be meaningful to you. I agree with Michael's assessment of how we're doing with power modules. The thing that I would add, though, is whether you're looking at programmability, you're looking at e-commerce solution, you're looking at eMotion or the power modules, or the integrated solutions that we were just talking about. It's all about an overarching strategy as far as how to differentiate and leverage all of our multiple technologies and differentiate ourselves in the market.

William Stein - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Well, that's helpful. If I can have a follow-up, please. I think last quarter, you talked a little bit about a new area that the business was investing in and that was high-performance converters. I'm wondering if you can provide an update on design wins, revenue, any sort of traction that we could think about there?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes, okay, that group [will be joining in] and with them -- they brought in opportunity. We have 6, 7 guys joining the company and they brought in opportunities. So it's and they -- we have the customers, okay, now. And they engage with the customers for the medical companies for a while. And so it's actually -- we don't have any significant inputs [that can change] And I think that we will -- these kind of things takes about -- this is actually very unusual. So it takes less than a year, we can see some results. Usually, our product, even internal developments and ground-up development will take us about 2 or 3 years to see anything. And this one is, okay, with -- so far, is looking good.

Operator

Our next question is from Rick Schafer with Oppenheimer.

Richard Ewing Schafer - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

And congratulations to you guys in a tough time to continue to execute. I guess my first question, talking about tough times. I know everybody's seen IHS forecast auto SAAR, I think, down over 20% this year. You guys obviously have a [comp to end] and some pretty significant share gains in that vertical. I mean, do you look at that this year and say that, that's enough to offset down, let's say, 20% SAAR? I mean, could your auto revenues be flat for the year? Could they grow in this kind of environment?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

I think we look at our histories, and okay, and we can tag on what is your macro economy segment growth -- or downwards in our segment. And we can -- we are confident enough, we can say that we can beat by 10%.



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Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes. We got an education in 2019 when there was a complete falloff in production in China and a soft demand in North America and Europe, in particular. So I think if you use that as a guide, and you can say that the SAAR was down, but we were able to grow at about 13%, 14% last year. So to Michael's point, is you can apply whatever you think the market is going to do, and we're going to outperform by a minimum of 10 percentage points. And last year, it was closer to 20%.

Richard Ewing Schafer - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Great. And then just pivoting to 5G. And just maybe if you could provide an update on your [5G RAN] opportunity. Maybe give us a sense of the MPS dollar opportunity in a macro base station? And part of my question, I'm just curious, I mean, it just seems like such a massive opportunity for you guys. Could 5G be as big as server for you and if we fast forward it 2 or 3 years?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes. Okay, that's a good question, and I only can tell you this. And we know 4G, we were out the door. We didn't have any chance. And this is the first time we engaged with a variety of customers. And there -- the ODMs and OEMs and even their suppliers. And so we engage both sides, I mean -- and the real telecom companies and also their supplies. And all we see the opportunities, we've never seen that before. How big the market is, okay? And I can -- we cannot quantify. And I'm not trying to tail wagging the dog here, and we are new, we're newcomers. And all I know the opportunity is huge. And we don't even try to quantify what's the opportunity. And we all notice as long as it is very big.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes. And I think you were asking for guidance on the dollar content for the (inaudible) solution, and Michael is correct that we don't have a number. We're two new.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

We -- yes, I can tell you why we don't -- particularly, okay, in which segment of 5Gs. Our product is in the building block of 5G. So if you think about it as a brick for the building. And our product is there is a standard product in those companies, and they can use it everywhere.

Operator

Our next question is from Kamil Mielczarek with William Blair.

Kamil Mielczarek - *William Blair & Company L.L.C., Research Division - Research Analyst*

Congratulations on strong results in this uncertain environment. Can you tell me how design win activity has been trending during the pandemic versus your expectations? And how do you balance growth and margin in this environment, what levers do you have to maintain or potentially expand the gross margin?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes, the gross margin, obviously, and [the way it goes] we go to kind of a little bit on the sideways in the second half of the last year. And we're not happy about it, but we try to be very consistent. And given the macro conditions and it kind of makes sense for us, a -- but the new product, particularly the new product is slower -- is the ramp was a pretty pretty good rate. But in some of the higher value -- call for a high-value product that was slower. So that's why the margins go -- but given the long terms and the margin will steadily go up.



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Kamil Mielczarek - *William Blair & Company L.L.C., Research Division - Research Analyst*

And the first part of the question was design activity.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Oh, yes. Okay. Sorry forgot about it. That was a very good question. So and obviously, normal activities kind of slow down and -- which -- it doesn't affect us, okay? We meet -- we can -- we are very much used to it, work from outside office. And we're still very much engaged with our customers. But in a very different way, okay, a very different market segments. A lot of them in -- relates to medical equipment and was -- and we will shift our [hats and we'll] -- MPS is in the past is pretty -- it's always a pretty fast on the feet. And so we [shift all our interest] and we support our -- those customers. But it's not like a normal business now.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

But one thing I can add to that is that, interestingly, our operations and our customers' operations in China and in Asia came back online about a month ago. And so not that I'm trying to say that we're business as usual, but in the area of the world where we have up to 90% of our employees, including a large share of our design professionals as well as a majority of our end customer engagement, we're actually seeing a good cadence, good momentum.

And as Michael said, on the U.S. front, where we're still in the shelter in place, both in our Washington and in our San Jose offices, we have developed over the last several years, the ability to both to field application engineering and customer engagement via Zoom, and we're fairly confident of that.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes, Bernie, it's not like 90%. It's a lot more like 60-some percent, okay? Yes, we do have a testing and reliability center, that's in China. But in terms of [newer] people, Asia, across Asia, including Japan, and versus the U.S. and Europe is okay. We're probably -- including Japan, so that probably -- it's about -- some percent. Okay. Yes. So we are more diversified across the world.

Operator

(Operator Instructions) And our next question is from Hans Mosesmann with Rosenblatt Securities.

Kevin Garrigan - *Rosenblatt Securities Inc., Research Division - Equity Research Associate*

This is Kevin Garrigan on for Hans. Congrats on the results. Just one quick one for me, and my apologies if you had alluded to this already. You had mentioned that you're seeing minimal supply disruptions and that's driving good momentum with your Chinese customers. Can you give us any color in terms of if you're seeing any demand destruction?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

I don't know is the Chinese customers. We didn't -- did we say maybe -- okay, that's a misunderstanding. We -- okay. And Bernie, you want to say that, okay.



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Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes. As far as any demand destruction occurring, we haven't seen any cancellation of projects or pushouts and orders in a material basis. Obviously, the duration of the macro environment is not understood right now. So we're very sensitive to seeing any early warning signs that we need to react to in this volatile environment. But as of this point in time, we have not seen a step down in demand on a broad based. There are some pockets, as we mentioned in an earlier answer.

Operator

And our next question comes from David Williams with Loop Capital.

David Neil Williams - *Loop Capital Markets LLC, Research Division - VP*

Congrats on the quarter. Just wanted to see if you had any color on maybe the console launches that are expected, you said in the second half. How do you think that ramps? Do you have a sense of what that -- what the demand is going to look like or what those volumes could potentially be?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Yes, we have a pretty good -- we have a pretty good knowledge, but I cannot say that. Okay? Whatever, but in that business is very cyclical. So -- and okay, that's in a -- for MPS it's a good money. But for stock values, okay, it's very contrary to what we do. It's a very [cyclical] and a ramp-up and -- it buys once a year and for most of the year, they don't do anything, okay? And we have -- after that wave, we had to fill up the gap. We have done -- we have done pretty good in the last 2 or 3 years, but as the revenue keeps growing, that will be a small part of our MPS business.

David Neil Williams - *Loop Capital Markets LLC, Research Division - VP*

Great. And then just kind of thinking about the comm segment and the design wins and maybe the design activity there. Are you seeing a broader base of designs outside of maybe Huawei or some of the other larger companies? Just kind of if you could talk about where you're seeing the most potential or the most opportunities there?

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Sure. And if you look worldwide as far as where a lot of the deployment is -- it's in both China and South Korea right now, Europe and North America have been a little slower. So most of our design engagement for now has been in the lab as opposed to actually being commercially rolled out.

David Neil Williams - *Loop Capital Markets LLC, Research Division - VP*

Okay. Great.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

And then -- sorry, go ahead.



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Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Oh, no, I didn't -- I just want to clarify, we don't -- we don't imply any customers in our calls. And we disclosed -- we have large customers, okay, and by rules, again, and so in the 5G, as I said earlier, we engage not only one and many different types of kind of a different telecom companies. We also initial there was a different (inaudible).

David Neil Williams - *Loop Capital Markets LLC, Research Division - VP*

Okay. Very good. And then, I guess lastly for me is, if you're kind of thinking about the rest of the year and even the second quarter perhaps, what are your largest unknowns or potential hurdles that you kind of think about the areas of weakness you could be seeing? Or what are the areas, I guess, that you're most either troubled or concerned with or, I guess, paying most attention to through the back of the year here?

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

Okay. Okay.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Michael, you're breaking up again. I'm sorry, you're breaking up.

Michael R. Hsing - *Monolithic Power Systems, Inc. - Founder, Chairman, President & CEO*

I'll give you a philosophical joke, half joke. We really worry about toilet paper effect. And it's -- actually, we don't know. And again, the demand is very good in the second half of the year. And (inaudible) -- we do, and okay, when everything is good, they tend to an over order. And we won't see it. Of course, we try very hard. And out what is the real reason? And we, so far, we have a very good -- we have a -- that's what we try to do and okay we -- until our customers start to [screaming at]. And again then we're shipping our products.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Yes. So as opposed to a concern of the rapid falloff, right now, we're managing is the toilet paper effect, where there's so much exaggerated demand. We want to make sure that we're not building inventory on in the channel or in our distributors' warehouses. And the way we do that is we don't ship to the level that they requested, and then if they really do have a stock outage where they're going to go lines down, we'll hear about it quickly and respond to that. So that's the issue that we're managing now as far as looking beyond that, maybe we'll have better guidance or outlook next quarter.

Operator

Ladies and gentlemen, this concludes our Q&A session for today. I will turn the call back to Bernie Blegen for his final remarks.

Bernie Blegen - *Monolithic Power Systems, Inc. - VP & CFO*

Right. Thank you very much. I'd like to thank you all for joining us in this conference call. I look forward to talking to you again during our second quarter conference call, which will likely be at the end of July. Thank you, and have a nice day.



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Operator

And with that, ladies and gentlemen, we thank you for participating in today's program. You may now disconnect.

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