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PRESENTATION

Operator

Good afternoon, and welcome to SiTime's fourth quarter 2024 financial results conference call. (Operator Instructions) As a reminder, this conference call is being recorded, February 5, 2025.

I would now like to turn the call over to Brett Perry of Shelton Group Investor Relations. Brett, please go ahead.

Brett Perry - *Shelton Group Investor Relations - IR*

Thank you, Lisa. Good afternoon, and welcome to SiTime's fourth quarter 2024 financial results conference call. Joining us on today's call from SiTime are Rajesh Vashist, Chief Executive Officer; and Beth Howe, Chief Financial Officer.

Before we begin, I'd like to point out that during the course of this call, the company may make forward-looking statements regarding expected future results, including financial position, strategy and plans, future operations, the timing market, and other areas of discussion. It's not possible for the company's management to predict all risks nor can the company assess the impact of all factors on its business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed during this call may not occur, and actual results could differ materially and adversely from those anticipated or implied. Neither the company nor any person assumes responsibility for the accuracy and completeness of the forward-looking statements.

The company undertakes no obligation to publicly update forward-looking statements for any reason after the date of this conference call to conform statements to actual results or to changes in the company's expectations. For more detailed information on risks associated with the business, we refer you to the risk factors described in the 10-K filed on February 26, 2024, as well as the company's subsequent filings with the Securities and Exchange Commission.

During the call, we'll refer to certain non-GAAP financial measures, which are considered to be an important measure of company performance. These non-GAAP financial measures are provided in addition to and not as a substitute for, nor superior to measures of financial performance prepared in accordance with US GAAP.

The GAAP to non-GAAP reconciliation includes stock-based compensation expense, amortization of acquired intangibles and acquisition-related expenses, which include transaction and certain other cash costs associated with business acquisition as well as changes in the estimated fair value of contingent consideration and earn-out liabilities. Please refer to the company's press release issued earlier today for a detailed reconciliation between GAAP and non-GAAP results.

With that, it's now my pleasure to turn the call over to SiTime's CEO, Rajesh. Please go ahead.

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Thanks, Brett. Good afternoon. I'd like to welcome new as well as existing investors to SiTime's fourth quarter 2024 earnings call. SiTime is the leader in a dynamic new semiconductor category that we call "Precision Timing," which is the heartbeat of modern electronics. Whether it's in AI, datacenters, networking infrastructure, automated vehicles, personal mobility or IoT, SiTime's Precision Timing delivers better performance and reliability. SiTime's Precision Timing products use semiconductor technology to reimagine time and transform the $10 billion timing market.

Revenue for Q4 2024 grew 61% year-over-year with strong profitability. For all of 2024, we delivered 41% growth, which is well above our target. Our strong fourth-quarter results demonstrate the diversity of SiTime across customer segments and geographies. Each of our customer segments and regions delivered double-digit percentage growth with Comms-Enterprise-Datacenter, what we call CED, growing significantly. We exited the quarter with strong bookings for 2025, giving us a bright outlook for the year.

Looking back, FY 2024 was a year of recovery and growth. As forecasted in the previous year, 2023, we started growing sequentially in Q2 '24. Every customer segment delivered double-digit percentage year-over-year growth in Q2, Q3, and Q4 of 2024, while CED delivered triple-digit growth. We believe that this strength in all of our customer segments is a big positive. Our business model is structured to deliver profitable growth while serving different customer segments with different growth rates at different times.

Product innovation plays a key role in fulfilling our strategy of producing high-differentiation, high-value timing products. Since Q2 2023, we have introduced 10 new platforms that deliver 40 products with ASPs or average selling prices ranging from $1 to over $200. These will be critical for growth in revenue and gross margin for the next several years. As electronic devices incorporate intelligent features, they will need faster processing, connectivity reliability--and SiTime is the leader in delivering these benefits.

Our Comms-Enterprise-Datacenter business demonstrates the value of our portfolio. We expect CED to continue to lead our growth in 2025 as newer generations of servers in AI and networking equipment are rolled out.

Turning to recent news in AI, we forecast that the need for higher bandwidth and lower latency will continue to increase. This is true regardless of traditional or low-cost AI models and regardless of general-purpose or reasoning LLM models. Applications such as Active Cables, AECs, GPU switches, SmartNIC cards are solving bandwidth and utilization problems through architectural innovations as well as moving to higher interconnect speeds. And these trends are driving the demand for more Precision Timing with higher dollar content per application.

For example, our oscillators have significant market share in 800G optical modules, and we have a compelling road map for future generations of 1.6 terabit and 3.2 terabit modules.

In switches and NIC, or NIC cards, SiTime's recently introduced 5977 Super-TCXO solves GPU utilization and reliability problems by delivering up to 3x better synchronization, 4x smaller size, and 20 times better reliability.

But it's not all about AI datacenters in our CED market. It's also about the breadth of other applications. We've seen increasing demand in Communications where our Epoch product, our OCXO, solves timing problems in 5G base stations. We continue to expect success in this subsegment starting in 2026.

Now let's talk about growth opportunities for SiTime beyond CED. In the broader industrial market, new use cases and the adoption of new technologies are driving the need for more Precision Timing with higher dollar content. For example, autonomous technology that uses our timing products is being adopted in mining and construction equipment as well as precision agriculture. This is a $50 million market for SiTime, and we expect to get the majority share because of greater resilience.

Similarly, the need for more precise and robust positioning is driving adoption of our products in drones, handheld military radios, and Assured PNT or precision navigation and timing systems. This is a $25 million-market for SiTime, and we expect, again, to get a majority share because of our higher performance, smaller size, and lower power.

To summarize, we expect our growth to continue in 2025. The breadth and diversity of our products, applications and customers are delivering the growth that we have worked for. I'm confident of our success now and in the future.

And now I'll turn the call over to Beth, our CFO, to discuss our financial results in more detail. Beth?

Elizabeth Howe - *SiTime Corp - Chief Financial Officer, Executive Vice President*

Thanks, Rajesh, and good afternoon, everyone. Today, I'll discuss our fourth quarter and full year 2024 results, and then I'll provide our outlook for the first quarter of 2025. As a reminder, I'll focus my discussion on non-GAAP financial results, which are reconciled to our GAAP financials in our press release.

We are pleased with our performance as we continue to execute our financial model. We delivered remarkable results with strong revenue growth and even greater profit expansion, reflecting the scalability of the business. Importantly, this performance was driven by broad-based strength across our customer segments. Our performance this quarter demonstrates our ability to successfully invest in our business while delivering strong financial results.

For the full year, we delivered revenue of $202.7 million, up 41% from the prior year. Non-GAAP gross margins were 58.2% and non-GAAP operating expenses were $117.5 million. For the fiscal year, we generated non-GAAP net income of $22.2 million, non-GAAP earnings per share of $0.93, and cash flow from operations of $23.3 million.

Looking at the details of the December quarter, Q4 was a strong finish to the year with revenue increasing 61% year-on-year and 18% sequentially to $68.1 million. Revenue by customer segment was sales into Communications, Enterprise, and Datacenter market of $24.8 million or 37% of sales, up 156% year-on-year. Sales into the Automotive, Industrial and Aerospace market were $20.5 million or 30% of sales, increasing 32% year-on-year.

And sales into the mobile, IoT, and consumer market were $22.8 million or 33% of sales, up 33% year-on-year, with sales to our largest end customer totaling $16.4 million or 24% of sales.

Non-GAAP gross margins were 58.8%, up 70 basis points sequentially, and a bit better than expected due to favorable product mix. Total non-GAAP operating expenses for the quarter were $32.5 million, with R&D expense of $19.4 million and SG&A expense of $13.1 million. As expected, the increase in R&D spend was due to investments in new products that we are bringing to market.

Fourth-quarter non-GAAP operating income was $7.6 million, an improvement of $3.6 million sequentially. Interest and other income was $4.5 million. Fourth-quarter non-GAAP net income was $11.8 million or $0.48 per share compared with $0.40 per share in Q3.

Turning to the balance sheet. Accounts receivable were $38.1 million, with DSOs of 50 days, up 3 days from Q3 due to revenue linearity. Inventory at the end of the quarter was $76.7 million, compared with $71.9 million in Q3.

During the quarter, we generated $13.6 million in cash flow from operations, invested $16 million in capital purchases, and paid $7 million to Aura Semiconductor. At the end of the fourth quarter, we had $419 million in cash, cash equivalents, and short-term investments.

Now I'd like to provide our outlook for the March quarter. We expect typical seasonality in Q1 with revenue of $53 million to $55 million, an increase of 64% year-over-year at the midpoint, and gross margins of approximately 57%. We expect operating expenses to be roughly flat sequentially even as we absorb the higher beginning-of-the-year payroll taxes, and we expect interest income of roughly $4 million to $4.5 million. As a result, we expect Q1 non-GAAP EPS to be in the range of $0.09 to $0.13 per share.

In closing, we are pleased with our strong results and we believe we are well positioned for growth in 2025. Our product portfolio continues to expand with differentiated products that address large and growing markets, and our customers are clearly recognizing our value proposition. All in all, we are executing our strategy, and our strategy is working.

With that, I'd like to hand the call back to the operator for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tore Svanberg, Stifel.

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

Yes, thank you and congratulations on the strong results. So, Rajesh, you talked about strong bookings momentum going into 2025. If you look at your three segments, could you just give us a little bit of a sense for where those bookings are coming? And then as we think about growth in '25, where would the relative strength come from the three segments?

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Right, thanks. Sorry, yeah. So, it's no surprise that most of the growth in '25 will also come from the CED portion of the market, the Communications, Enterprise, and Datacenter portion of the market. I think we'll see growth in Consumer Mobile IoT, and we'll see growth in Industrial, Automotive, and Military Aerospace, but perhaps not to the same extent for these two segments that we see for the first one that I mentioned. So we still expect to be on that one for a while.

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

Great. And if I can zoom into the CED segment. You've talked about selling into four different applications for an AI-based server. And I'm just wondering if we look at calendar '25 again, whether it's switches or NIC cards or AECs, where do you see the biggest strength within those applications in 2025?

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, in general, we sell more units into AECs, NIC cards, and smaller units into GPUs and some of these other ones. Also in the more quantity, more units is also in the optical modules as we have said before. The pricing for the products in the GPUs is probably higher, but the volumes are not as high. So I think it just depends on which one does better, but we expect all of these segments to grow.

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

That's helpful. I have a couple more, but I'll go back in line. Thank you.

Operator

Quinn Bolton, Needham & Company.

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

Hey guys, let me offer my congratulations as well. I guess maybe just big picture, Rajesh and Beth, you've talked about a target of 25% to 30% in '25-'26, obviously, very solid foundation in '24. But are you still feeling pretty good about your ability to hit that kind of longer-term growth rate, both this year and next?

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, I think that's a good target for us, Quinn. I think that's -- we see that kind of growth coming from the breadth of the market that we address and the broad level of activity in these markets with our latest products. So yes, I would agree that we're probably good for that as a target right now.

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

Perfect. And then, I guess, Beth, on the gross margin, the step down to 57%, probably a little bit lower than at least I had modeled. Wondering if you could just sort of walk us through some of the puts and takes. I know revenue, lower revenue probably means absorption is an issue. But you guys spent, I think you said, $16 million in CapEx in the quarter. I wonder if there's also some additional depreciation or costs for new products that you guys may be absorbing in the near term before those have sort of fully ramped. And so how much of it is just revenue stepping down? How much of it is perhaps the ramp in new products that aren't yet at mature yields or sort of fully ramped up on the supply chain?

Elizabeth Howe - *SiTime Corp - Chief Financial Officer, Executive Vice President*

Sure, Quinn. Thanks for the question. I think you hit the nail on the head. So, when we've got the revenue seasonality and the manufacturing absorption is the most significant part of that. And then we do have additional depreciation as we're ramping new products. And so we, kind of as expected, have a step down in the gross margin here.

As we've talked about, we're on the path that we've been on in terms of bringing these new products to market, working through the yield improvements, the cost downs, improving test times and other things as we mature these products. So over time, we do expect gross margins to improve. But the combination of the typical seasonality and lower revenue in Q1 combined with these ramps is driving the gross margin this quarter.

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

If I could just take a quick follow-up. You've talked about hoping to get back to 60% gross margin. Obviously, you're maybe starting a little bit lower because of the absorption issue in March. Do you think you can get to 60% sometime in the back half of '25 or should we be thinking 60% might now be pushed out to calendar '26?

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

We're still targeting that as something we want and we can address.

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

Great. Okay. I'll go back in queue. Thank you.

Operator

Suji Desilva, ROTH Capital.

Suji Desilva - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Rajesh and Beth, congrats on the progress here. Just a quick follow-up on Tore's question about bookings. Are you seeing the improvement? Is that a customer preference or some of your newer products? Or have the lead times moved at all? Or are customers just acknowledging long lead times? Any color on why the bookings are improving would be helpful.

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, I think bookings are just strong on the back of demand. We just see a pretty good demand coming from all sectors. Our lead times are pretty solid where they were. We just see a lot of -- when we look at the end markets, whether it is the Industrial, Military, Aerospace, Automotive or it's the Mobile IoT consumer, and of course, we've talked about CED, we just see demand coming through. I'm not saying that it's some kind of an over-the-top demand. I'm just saying it looks solid.

Suji Desilva - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Okay. That's helpful. And then separately, on the timing product, the Aura acquisition, maybe you can give us an update on where the road map, product road map and synergies are there and where some of the traction is as you kind of put the products together in there?

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, so we had taken that product mostly for the higher end of our market, mostly for the CED market and some portions of the Military, Aerospace and some portions of the Industrial market. And that is completely playing out. So, Aura has done, of course, a fantastic job, I've said this several times, in delivering the products that they were supposed to deliver. And we are really pleased with the level of support that they have given us and the integrity with which they have been dealing with us. So that's an absolute positive.

But the second part is that those products combined, those clocking products, the jitter attenuators, the buffers, the clock generators, combined with our higher-end oscillator products, have worked according to plan, have been 1 plus 1 equals 3 as we go to some of these customers that I mentioned earlier.

So it's coming exactly according to plan. As we mentioned, these kinds of products take a longer time to design in. But we're still thinking that in the next few years, the revenue from clocking could be approaching $100 million.

Suji Desilva - *Roth Capital Partners LLC - Managing Director, Senior Research Analyst*

Very helpful color, Rajesh. Thanks.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research - Analyst*

Thank you. Good evening. I guess the first question is on OpEx. And as you deliver on -- hopefully deliver on some of the growth that you're expecting this year and next year, what should we expect with regard to OpEx and getting some leverage on that growth? Where is your expense level relative to where you need to be to get to the growth that you're targeting?

Elizabeth Howe - *SiTime Corp - Chief Financial Officer, Executive Vice President*

If we look at operating expenses, I think as we've been saying, I expect that we can grow revenue much faster than OpEx. Again, we were at $32.5 million in Q4. I think we'll be roughly in that same range for Q1 with some puts and takes. For example, in Q1, we've got to absorb the higher payroll taxes that we have at the beginning of the year. So, there'll be some offsets in there sequentially.

And as we look forward, we're going to continue to make strategic investments in R&D, in go-to-market as we continue to grow the revenue. But again, I think you can think about it growing certainly, probably not more than half as fast as revenue.

Chris Caso - *Wolfe Research - Analyst*

That is helpful. If I could ask another question with regard to the auto business. And there's a trend that's becoming clearer where the center of gravity of auto is kind of moving a bit more to China. Certainly, there's some share shift going on. Can you speak to SiTime's position in China auto as compared to Western auto? Do you -- is the share similar, the opportunity is similar, your ability to penetrate those customers similar if we continue to see this trend?

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

So, it's always helpful to think of SiTime customers using us in their most innovative products. So that's kind of the heuristic. SiTime's products are more innovative than other timing products, and therefore, they get used in our customers' more innovative products.

In the case of Automotive, it turns out that there -- while there are a few innovative American companies, Tesla comes to mind and some of the others, the more automotive innovative companies that have been changing the world of auto -- of cars is, of course, coming from China, whether they're electric vehicles or around automation, I think that's coming from China. So necessarily, there will be a bigger use case coming out of China.

Having said that, as United States companies and European companies and for that matter, Japanese companies start adopting some of the same technologies, we expect to get more and more of that penetration. So at this point, about, in our automotive business, I'd say about 30% to 40% of our business is coming from China.

Chris Caso - *Wolfe Research - Analyst*

Got it. That's helpful. Thank you.

Operator

Tore Svanberg, Stifel

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

Yeah, thank you. The first one is on your largest customer. As we look at 2025, is there something going on there that is unusual, whether it's new products from them that you might be in or whether you're expecting any new content growth in any other existing devices? Just a sort of better read on what could potentially be going on with your largest customer in '25.

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, as you know, we haven't seen any press releases out there just like, I guess you haven't seen any press releases. So, we get our information in the same way on new products from them that the world does. So let's just wait and see what happens with all of that.

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

Yeah, that's fair, Rajesh. And then my other follow-up was on Aura. So, you talked about that $100 million business target. But I noticed you did pay them some money this -- well, you had a payout this quarter. So, I'm just wondering, should we assume that those clocks are now already starting to generate revenue? And I assume that the margin profile for that $100 million would be higher than the corporate average.

Elizabeth Howe - *SiTime Corp - Chief Financial Officer, Executive Vice President*

Thanks, Tore. So yes, we are starting to see some revenue from the Aura products. As we've talked about, we got the assets that have been -- having to get the design wins and some have come through, maybe a little faster, and so are starting to see some revenue in 2024, expect that to continue to build in '25 and beyond. So that's good news in terms of our products and the trajectory for those clocks.

And yes, the gross margins are generally accretive to the corporate average. And so as we continue to build that business, it's both good revenue as well as good margin.

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

Excellent. Thank you so much.

Operator

Thank you. And there are no more questions in the queue. I would like to turn the call back over to management for closing remarks. Please go ahead.

Rajesh Vashist - *SiTime Corp - Chairman of the Board, President, Chief Executive Officer*

Well, thank you very much. We said goodbye to 2024. It was a wonderful year in growth and settling down the company. We look forward to a very good 2025 and hope to see you across all the earnings quarters. So thank you again.

Operator

Thank you all for participating in today's conference call. You may now disconnect.
