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CORPORATE PARTICIPANTS

Arthur D. Chadwick *SiTime Corporation - Executive VP & CFO*

Rajesh Vashist *SiTime Corporation - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Michelle Waller *Needham & Company, LLC, Research Division - Associate*

Suji Desilva *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

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

Jake Roberge *William Blair & Company, LLC - Equity Research Associate*

Leanne K. Sievers *Shelton Group - President*

PRESENTATION

Operator

Good afternoon, and welcome to SiTime's Fourth Quarter 2020 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, Wednesday, February 3, 2021.

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

Leanne K. Sievers - *Shelton Group - President*

Good afternoon, and welcome to SiTime's fourth quarter and full year 2020 financial results conference call. On the call from SiTime are Rajesh Vashist, Chief Executive Officer; and Art Chadwick, 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 is 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 the call may not occur and actual results could differ materially and adversely from those anticipated or implied.

Neither the company nor any other 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 call to conform these statements to actual results or to changes in the company's expectations. For more detailed information on risks associated with our business, we refer you to the Risk Factors described in our 10-K filed on March 2, 2020, as well as the company's subsequent filings with the SEC.

Also during this call, we will refer to certain non-GAAP financial measures, which we consider to be an important measure of company performance. These non-GAAP financial measures are provided in addition to and not as a substitute for or superior to measures of financial performance prepared in accordance with U.S. GAAP. The only difference between GAAP and non-GAAP results is stock-based compensation expense. But please refer to the press release issued today for a detailed reconciliation between our GAAP and non-GAAP financial results.

I'd now like to turn the call over to Rajesh. Please go ahead.

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Thank you, Leanne. Good afternoon and thank you to all those joining us on today's call. SiTime continues to execute well. The last quarter, Q4 2020 was another record with $40.3 million in revenue, which was above our updated guidance which we provided on November 24. This revenue represents an increase of 23% sequentially and 43% year-over-year, driven by the broad-based growth across all 3 of our end markets. For the full year 2020, the total revenue grew by 38% over 2019, driven by increasing value and our consistent execution. In 2020, we also completed another milestone. We surpassed 2 billion units shipped cumulatively. Art will discuss our fourth quarter financials and first quarter 2021 outlook later in the call.

We continue to focus on the Communications and Enterprise infrastructure market, where timing performance is critical, and our products solve difficult timing problems. We have won 30 new designs in a variety of applications such as ORAN, remote radio heads, servers, optical modules, switches and routers. Our ability to deliver superior environmental resilience and higher reliability was instrumental in winning these designs. More specifically, the rapid increase in bandwidth is driving data center optical modules to move from 100G to 400G. Here, we are seeing many design wins with our recently announced 9501, the SiT9501 product. We are also engaged with standards bodies and chipset vendors that are working on the next-generation of 800 gig optical modules.

In the Automotive market, we're seeing a similar growth trend. With the rapid growth of electrical vehicles, safety and driver assistance systems, we see a need for even more electric components and automobiles with up to 3,000 ICs of all kinds in an electric vehicle. These electronic systems in a car all need, by our estimate, about 50 timing devices. Our growth and success comes from delivering better stability, resilience and reliability in a small size.

Even though we don't provide specific end market guidance generally, I would like to share some numbers with you for this time. The number of autos sold in 2020 declined by 34%, but our revenue, SiTime's revenue from automotive, increased by 55%, and we forecast that it will continue to grow in 2021. Our design win funnel value increased in 2020, driven by designs in a variety of cameras, smart mirrors, infotainment systems, Ethernet, ADAS CPUs, active suspension, LiDAR and EV battery management. So, you can see that these automotive designs have a life of 5 to 8 years, and so they'll provide further growth over the coming years.

One of the ways that we are trying to address the opportunities that come towards us is what we call our rapid product release strategy. So, our systems knowledge, with continued investment in automation and the architecture, which is a programmable product architecture, enables us to customize features, bring them to market quickly and solve difficult timing problems. With this strategy, we can deliver up to 15 derivatives, 15 product derivatives from 1 platform product. This strategy also allows us to address specific opportunities when supply is constrained like it has been in the past few months.

Our newly released TCXO, the SiT5008, is such an example. In this case, we improve stability by up to 10x by optimizing our algorithms and addressed a particular customer need. This device is ideal for consumer and IoT devices, such as Internet-connected audio/video, over-the-top streaming devices, smart meters and other devices that use low power wireless connectivity. And typically, by adding this kind of value, we are also able to get a higher pricing than typical commodity products, which is also a key part of our strategy.

Another example of our rapid release strategy is when we recently announced a notable win with ADT. As 5G is deployed widely, operators can free up spectrum by sunsetting old technologies such as 3G or 4G, as it turns out. However, there are existing applications such as home security systems that use the 3G technology and that need an upgrade. CellBounce, which is a division of ADT, needed a very stable timing solution that would enable the successful 3 to 4G conversion of existing home security panels, without expensive truck rolls. To enable this conversion, CellBounce's performance requirements were stringent, but we were able to rapidly optimize our Elite Platform Super-TCXO to meet these requirements, resulting in a SiTime solution that delivers 10x better performance than the existing solutions.

On the state of the semiconductor business today, I wanted to make a few comments on the industry dynamics and supply chain since that's top of mind for a lot of people. The quartz industry has continued to be disrupted most recently by a fire at a supplier to the quartz industry. This impacted supply chain and manufacturing capacity. These market dynamics have created opportunities for SiTime. Because of our responsiveness, we've been able to secure incremental opportunities and wins across a number of new and existing customers.

Further in this, our fabless, multi-source supply chain, continues to serve as a strategic advantage for SiTime especially during periods of tightness in the broader supply chain.

While we have seen lead times increase in recent months, we continue to work closely with customers to deliver products and the time that they need. Our suppliers, who are also the suppliers to the semiconductor industry in general, view SiTime's MEMS timing solutions as a growth opportunity that is, in fact, a net add to the total available market or the TAM. So basically, our silicon timing solutions are bringing additional TAM to the semiconductor industry as we are replacing a non-semiconductor solution, quartz.

In conclusion, we continue to extend SiTime's leadership in timing, and we remain uniquely positioned to continue to disrupt the market with our ability to offer complete timing solutions. Timing itself, as I've said before, is a critical function that is increasingly important as faster connectivity becomes more and more relevant, more and more ubiquitous. Our systems knowledge and having the 3 product categories in-house uniquely, oscillators, clocks and resonators, allows us to better design products for our customers and solve the world's tough timing problems.

With that, I'll now turn over the call to Art to discuss our fourth quarter results in more detail and provide our outlook for the first quarter of 2021. Art?

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Great. Thanks, Rajesh, and good afternoon, everyone. During my review today, I will discuss fourth quarter 2020 financial results and provide some guidance for the first quarter of 2021. I'll focus my discussion on non-GAAP financial results and refer you to today's press release for a detailed description of our GAAP results as well as a reconciliation of GAAP to non-GAAP results, which, for us, exclude stock-based compensation and related payroll tax expense.

So to begin with, the fourth quarter was a record quarter on multiple fronts. We had strong revenue growth, continued gross margin expansion and record non-GAAP net income. We increased revenue guidance mid-quarter, and actual results exceeded that mid-quarter guidance. Revenue for the quarter was $40.3 million, up 23% sequentially and up 43% over the same quarter last year. Revenue for the full year was $116.2 million, up 38% year-over-year.

To provide some color on end markets, I'll report sales by market group as I have in the past. The first is "Mobile, IoT and Consumer", which consists primarily of sales into mobile phones, wearable devices and consumer products. Sales into this segment were seasonally strong across many customers, including our largest customer. Sales were $27.3 million or 68% of total sales. This was up 31% sequentially and up 47% over the same quarter last year. Sales in this segment for the full year were up 28% year-over-year.

The second is Industrial, Automotive and Aerospace, which includes sales of products into industrial, automotive, medical, aerospace, military and broad-based sales. Sales were $6.9 million or 17% of sales, up 7% sequentially and up 31% over the same quarter last year. Sales for the full year were up 31% year-over-year.

The third is Communications and Enterprise, which consists of wireless infrastructure, including 5G, data center and networking. Sales for the quarter were $6.1 million or 15% of sales, up 13% sequentially and up 45% over the same quarter last year. This was the fastest-growing segment for the full year, with sales up 104% year-over-year.

We had just one end customer during the quarter where sales exceeded 10% of the total, and sales to that customer were 48% of total sales.

We had continued gross margin expansion this quarter. Non-GAAP gross margins were 53.5%, up 140 basis points sequentially and up more than 5 points over the same quarter a year ago.

Non-GAAP operating expenses were $13.2 million, up 5% sequentially, comprised of $6.7 million in R&D and $6.5 million in SG&A.

Our strong revenue growth, coupled with expanding gross margins, generated a record non-GAAP net income of $8.3 million or $0.43 per share compared to $4.4 million or $0.23 per share in the third quarter.

Stock-based compensation expense and related payroll taxes were $6.3 million, up from $5.1 million in the third quarter due to the higher stock price, new employee stock grants and our performance stock bonus plan.

Trade receivables were $23.9 million, up from $17.2 million in Q3 due to the higher revenue this quarter. DSOs were 53 days.

Inventory was $12.4 million, down from $15.2 million at the end of the third quarter due to the high volume of shipments in Q4.

We generated $6.8 million in cash from operations and consumed $2.4 million with the purchase of equipment and assets, which gave us an ending cash balance of $73.5 million and no bank debt.

I'd now like to provide some guidance for the first quarter of 2021. We expect sales in Q1 will be between $32 million and $34 million. This is down from Q4 due to normal seasonality but at the midpoint represents 50% revenue growth over the same quarter last year.

Non-GAAP gross margins are expected to be between 52% and 53%, which would be up more than 5 points over the same quarter last year.

Operating expenses are expected to be approximately $15 million. This is an increase from Q4 due primarily to new hires and beginning of the year payroll taxes.

The basic share count in Q1 will be approximately 17.3 million shares. The dilutive effect of employee RSUs will add approximately 2.2 million additional shares, taking the total diluted share count to approximately 19.5 million shares.

Stock-based compensation expense will be approximately $7 million, an increase from Q4 due to new employee RSU grants and the higher stock price. So, based on the guidance just given, we expect first quarter non-GAAP EPS will be between $0.10 and $0.14 per share.

Though we are not giving full year financial guidance. I would like to offer a few comments about the year. First of all, the trends that are driving the need for high-performance timing solutions should continue to drive significant revenue growth in 2021 in each of our major market segments. We're expecting a very strong first half of the year, which means our usual seasonality will likely not be as pronounced as in past years. In addition, our initiatives to expand gross margin should continue to pay off. We expect gross margins for the full year to increase by at least 300 to 400 basis points over the prior year. We are expanding our workforce as we increase investment in new products and technology, but we'll keep our OpEx growth rate to less than our top line growth rate in order to drive increasing operating margin expansion.

So, in summary, we have an exceptional workforce that continues to perform well while working from home. Our product portfolio continues to expand with differentiated products that address large and growing markets. We have an enviable tier of Tier 1 customers, a strong balance sheet, and we're looking forward to a great 2021.

And with that, I'd like to turn the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tore Svanberg with Stifel.

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

Yes, thank you and congratulations on the very strong results. The first question is on communications and enterprise. Rajesh, you talked about 30 new designs. Is there any way you could talk a little bit about the timing and when those will start ramping into production?

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Yes. I mean actually -- Tore, thank you. We are ramping up on these right now. It's a slow ramp. It's not an overnight ramp. And as we have discussed in past calls and -- they're not all just pure-play 5G. Some of them are satellites. Some of them are computing. Some of them are in the networking area. And so as such, the ramp is spread out over time. It's not typically like communications that it takes 18 months for these to ramp up. So I would say that they are ramping through '21 into '22.

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

Understood. And you talked a little bit about 400-gig optical modules and that being an opportunity. Based on our work, that market is going to start ramping quite meaningfully in the second half of this year. Would that be sort of -- would you expect those design wins to start ramping?

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Probably middle of next year is my forecast because you know these -- a lot of work that we're doing with the future standards bodies, I think they're still in work. They're still in flux. There are still some details that are needed to be ironed out. So I would say about a year from now, maybe slightly more. But around a year from now, we should start to see some of the rollouts.

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

Great. Just one last question for Art. Art, your inventory days are at 60 days, pretty low, but I think all companies now have low levels. Can you walk us through a little bit how you expect to increase your capacity in your inventory throughout the year?

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Sure. Yes, our inventory, as I mentioned in my commentary, actually went down during the quarter even though sales went up. And of course, those 2 are somewhat related. We will start to build inventory back up during the course of 2021. So, you should expect it to increase in Q1 and beyond. We are ordering ahead on wafers, both MEMS and our CMOS wafers, so that we do have adequate supply to satisfy this pretty strong demand that we're seeing certainly in the first half of this year and hopefully for the entire year.

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

Sounds good. Congratulations again.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Great. Thanks.

Operator

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

Michelle Waller - *Needham & Company, LLC, Research Division - Associate*

Hi guys, this is Michelle on for Quinn. Thanks for taking the question and congratulations on the nice results. So for my first one, in terms of the positive revision to the December quarter guidance, can you just walk us through what changed within the few weeks after you provided your guidance for the fourth quarter on your September earnings call? And just any color there on what drove the upside would be helpful.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Are you talking the upside from when we gave guidance early -- in early November to later November or from later in November until now?

Michelle Waller - *Needham & Company, LLC, Research Division - Associate*

Yes, exactly. Just I guess overall but both time periods would be helpful.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Sure. So, I'm actually going to walk us back to Q3 for a minute because it's the same trend that we saw in Q3. Going into Q3, we provided guidance. We had pretty substantial sequential revenue growth going from Q2 to Q3. So, we felt good about that. We gave that guidance. Order rate just was extremely strong through the course of Q3, and we increased our guidance at the end of August because of that, and we ended up beating that number.

Kind of the same scenario going into Q4. We raised our number going into Q4. Order rate has been extraordinarily strong. We had by far the largest record bookings in Q4 than we've ever had by a large margin. And so we did raise guidance at the end of November, and we beat that modestly by the time we finished the quarter. So, I attribute it to basically overall strength in our market. And again, order rates have been extraordinarily strong for us.

Michelle Waller - *Needham & Company, LLC, Research Division - Associate*

Great. That's helpful, thank you. And for my follow-up, with the supply chain issues that have taken place last year in the quartz industry, is that leading your customers to change how they view and assess the diversity within their supply chain? Just kind of wondering if there's any opportunities for you guys just based off of customers trying to diversify more away from these quartz industry fires.

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Yes. So, we had a very specific event that we talked about earlier, which was a constriction in the supply of quartz. That was, of course, a kind of a very short-term event but it was very pronounced. But what it led to was many of the consumers of the quartz products did not, for example, know that they were -- for example, they may have been getting products from 5 different vendors of quartz, but they did not know that the analog component was coming from one factory. So what looked like a diversification was really all coming through them. So, I think it is a bit of a wake-up call for some people in the industry.

And so, there was a short-term impact and then there was a longer-term impact. And the long-term impact, I think, is going to continue for a while. If you overlay on top of that a general tightness in the semiconductor industry, then you have a situation where it's a little bit of a perfect storm. And as Art has already indicated, we had a very, very good booking quarter in Q4. And we were a little bit cautious in making sure that there weren't any double bookings going on. And we're pretty satisfied that there were none or none that made it through to our system. But of course, you never really know. But in general, I think we've been very assiduous in making sure we have a very clean booking overall.

The other thing I'll -- point I'll also make is that we are -- we do solve tough timing problems. We are not a commodity supplier. So, we do charge a premium. So as such, those who use our products recognize the value of a product whether it's in performance or in supply chain or in quality. And so, they tend not to move away once they adopt the SiTime solution.

Michelle Waller - *Needham & Company, LLC, Research Division - Associate*

Okay,that's really helpful. Congrats once again on the nice quarter and results.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Great. Thank you, Michelle.

Operator

Our next question comes from Suji Desilva with ROTH Capital.

Suji Desilva - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

My congrats to all for the strong '20 there. Following up on the last question about the ordering and visibility, can you talk about -- if I missed this already, the lead times you're quoting to customers and whether you've been able to keep them under check by ordering wafers aggressively?

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Yes. I think one thing we have done is we've sort of played it wisely for the company both ways. While we have been very good at ordering and giving our supply chain a lot of transparency into our needs, I think we've done a very good job of that, whether we're dealing on MEMS wafers or TSMC wafers or indeed the back-end.

We've also gone the other way a little bit and made sure that we tell our customers and our distributors that lead times are, in fact, going up because I don't think there's any walking away from that fact that lead times have gone up because there is a tightness, a lot of our products come from TSMC, 180 nanometers, which is one of the biggest capacity that they have at TSMC but it's also one of those that is very popular. And so we have recognized that that's a continuing trend through this year, '21, and maybe well into '22 and perhaps even beyond that. So, we have quoted longer lead times, but they are well within customers' requirements and we do a good job of managing that.

Suji Desilva - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay. I appreciate you working though the same challenges the whole industry is. And then, Art, if you talked about this already, the first quarter outlook, can you talk about what that is by segment just to get some color around the guidance?

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

So I'm not going to refine my guidance that precisely for Q1, but what I will say is the decrease from Q4 to Q1 is all in the mobile, IoT and consumer space. We're expecting segment growth in industrial and comms and enterprise going from Q4 to Q1. And the decrease in mobile, IoT and consumer, that is just kind of a normal seasonality and it's even less seasonality than we've seen in past years.

Suji Desilva - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay. Last quick question perhaps for Rajesh. What do you think you're doing well...

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Yes. I was just going to add one thing to that, sorry. And our largest customer, as I mentioned in my discussion, was about 48% of our sales in Q4. Based on my current internal forecast, that drops to probably about 35% of total sales in Q1, plus or minus. So you can see what's decreasing from Q4 to Q1 kind of based on those numbers.

Suji Desilva - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

That's very helpful, Art. And then last quick question for Rajesh. In optical, it's impressive you're winning there. What are the factors that are helping you win designs, do you think, versus the competition as that market starts to come online?

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Yes. I mean it's -- very specifically, it's the bandwidth, but it's bandwidth with size and temperature. So I think those are very, very important pieces in there. And the fact that we have also performance factors like jitter and stability to go with it, I think it's -- I'm very gratified with that win, design -- those design wins because the product was introduced relatively recently, last year, I think around the Q3 time frame, and has done very well for us and we're very happy with it and continues to do well.

Suji Desilva - *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Great, thanks guys.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Thanks Suji.

Operator

(Operator Instructions) Our next question comes from Alex Vecchi with William Blair.

Jake Roberge - *William Blair & Company, LLC - Equity Research Associate*

This is Jake on for Alex. Congrats on the great quarter. So, you talked a lot about ordering ahead on wafers and some other materials. Just curious if you have any view on the impact of the supply constraints on the gross margin trajectory in both the near and kind of longer term.

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Well, we think there may be in future. We haven't seen anything yet. But most of our gross margin is pretty -- it's not based on our increase in gross margin, not based on either increasing prices because of shortages or decreasing gross margins because of costs, because of costs from our supply chain. But I think it's possible that in future, the increasing cost may happen, but we have no evidence of it. It's just that we are careful that we're in new territory here because I think this is not a quarter or 2 quarter or 1-year shortage. I think this is sort of a secular shortage because people forget that semiconductors are desperately needed for all the ADAS, all the automotive, the 5G, the health care, the computing, all of that. And I think this is a wonderful renaissance time, wonderful golden period for semiconductors in general. So, we have our eye on supply chain. But as of now, unlike some people that we have heard anecdotally, we are not raising any prices.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Yes. So Jake, I'll add to that also. Yes. Just to make it clear, the gross margin expansion that we have had and that we expect to continue in 2021 is not coming from reduced wafer pricing at this point. The gross margin expansion is coming from new products, which generally have higher ASPs, higher gross margins. And as that becomes a larger percentage of our sales, that increases gross margins. We're starting to take more sales direct so that bypasses the distributors. That improves gross margins. We get great leverage on our manufacturing overhead as overall sales go up. And we've got a number of other initiatives. Internally, we've got a list of 10 initiatives that we are working on that have expanded our gross margins and that we expect will continue to expand our gross margins.

Jake Roberge - *William Blair & Company, LLC - Equity Research Associate*

That sounds great. Thanks for the color. Congrats again on the great quarter.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Yes. Thanks, Jake.

Operator

Thank you. And I'm not showing any further questions at this time. I would now like to turn the call back over to Art Chadwick for any further remarks.

Arthur D. Chadwick - *SiTime Corporation - Executive VP & CFO*

Great. Well if there are no further questions, we will conclude the call this afternoon. I want to thank everybody for joining us today. Have a great afternoon. Thank you.

Rajesh Vashist - *SiTime Corporation - Chairman, President & CEO*

Thank you, guys.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
