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PRESENTATION

Operator

Good afternoon, and welcome to SiTime's Fourth Quarter 2022 Financial Results Conference Call. (Operator Instructions) As a reminder, the conference call is being recorded today, Wednesday, February 1, 2023. I would now like to turn the call over to Brett Perry of Shelton Group Investor Relations. You may begin.

Brett Perry - *Shelton Group - VP*

Good afternoon, and welcome to SiTime's Fourth Quarter 2022 Financial Results Conference Call. On today's 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 the 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 this call may not occur, and actual results could differ materially and adversely from those anticipated or implied. Neither the company nor writing 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 at the date of this call to conform the 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 25, 2022, as well as the company's subsequent filings with the SEC. Also during the course of the call, we'll 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 and related payroll taxes. Please refer to the company's press release issued today for a detailed reconciliation between GAAP and non-GAAP financial results.

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

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

Thank you, Brett. Good afternoon. First, I'd like to welcome new as well as existing investors to SiTime's Q4 2022 Earnings Call. SiTime is the leader in a dynamic new product category called precision timing. In electronics, timing is ubiquitous and ensures reliable functioning of systems. SiTime created precision timing to service the needs of applications like automated driving, 5G, enterprise and IoT. We are early in a growth as we transform the $10 billion timing market. SiTime has shipped 3 billion precision timing chips to 20,000 customers in 300 applications. .

We had a solid fourth quarter. Revenue for the quarter was $60.8 million, and revenue for '22 was $283.6 million. This is a 30% growth over the previous year, even though the second half of 2022 was challenging. Non-GAAP income was $14.4 million for the quarter and $82.9 million for the year, which is 29% of revenue.

On the product side, SiTime introduced 4 new products since the last earnings call. Previously, we had introduced 4 key performance metrics as indicators of future revenue: SAM expansion, design wins, ASPs and single source business. While we don't expect to do this on an ongoing basis, given the current market conditions, we're giving further insight into our business by using these metrics this time.

In 2021, our SAM was $1 billion. In 2022, we grew it to $2 billion. We are on track to get to $4 billion by the end of 2024. With a highly differentiated precision timing products, SiTime is creating a market where we continue to expand our advantages. Since our last earnings call, we introduced 4 new products and are on track to introduce 5 more in 2023.

Customer activity for these 9 new products, which includes architectural discussions and sampling, continues to be robust. 7 of these 9 products are in our focus segments, comms enterprise, automotive and aerospace defense.

Last week we introduced 2 new Endura product families that expand our presence in the aerospace defense market in applications such as position, navigation and timing, P&T, tactical communications, network synchronization and surveillance. Both products deliver up to 10x better environmental resilience, which is crucial for these applications that operate in harsh environments.

Our funnel and design wins continue to grow at a higher rate than in previous quarters. In Q4 '22, our design wins grew 52% -- 55% over the same period in '21. Additionally, 65% of these design wins were in our focus segments of comms enterprise, automotive and aerospace defense. Higher average selling prices or ASPs, are an indication of the value that we provide to customers. Our ASPs continue to grow and are expected to be higher in '23 than in '22.

As in the past few years, we're not seeing any meaningful loss of business to competitors, even though their availability has increased and lead times have shortened. We attribute this to the highly differentiated nature of our products. The customer trust that SiTime has earned is of tremendous importance to us, and a metric of that is a percentage of business that is single source. In '23, we expect to continue to have 80% of our business at single source. Looking further out, our funnel is in a similar single-source position across geographies and market segments.

Now coming to our guidance for Q1 '23. As we said earlier, the shortages of the past few quarters that customers and their contract manufacturers to purchase more than they needed. SiTime is continuously evaluating the inventory situation at our top 50 customers and there are more than 100 contract manufacturers. While most customers' inventory is as we forecasted earlier, a new development is that our historically largest customer recently informed us that they have more inventory at their subcontractors than they previously thought. Despite the rest of the business being as expected, this will lead to lower revenue in Q1 '23 than previously thought. We continue to believe Q1 2023 will be the lowest quarter of the year as we expect Q2 to be higher than Q1 and the growth to resume in the second half.

In conclusion, end customer demand continues to be generally healthy, our design wins and SAM expansion continues to grow. Our connections with customers is closed and growing through design wins. SiTime continues to be the leader in precision timing, a category that we created and we are confident about our future success. Art?

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

Great. Thanks, Rajesh, and good afternoon, everyone. Today, I'll discuss fourth quarter and full year 2022 results, and I'll provide guidance for the first quarter of 2023 and make some comments on the year. 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.

Revenue in the fourth quarter was $60.8 million, and revenue for the full year 2022 was a record $283.6 million, up 30% over 2021. Sales into our mobile IoT and consumer segment were $24.7 million or 41% of total sales. Sales to our largest customer, which is included in this segment, were $15.5 million or 26% of sales. Excluding sales to our largest customer, sales into this segment were $9.2 million or 15% of sales.

Sales into our Industrial, Automotive and Aerospace segment were $20.3 million or 33% of sales. Sales into our Communications and Enterprise segment were $15.8 million, or 26% of sales. Non-GAAP gross margins were 63.1%, down about 2 points from Q3 due to the lower revenue. Non-GAAP gross margins for the full year were 65.2%. Non-GAAP operating expenses for the quarter were $28.2 million as we held spending essentially flat with Q3. Expenses were $16.6 million in R&D and $11.6 million in SG&A.

Non-GAAP operating margins were 16.8% for the quarter and 26.7% for the year. Interest income for the quarter was $4 million, up substantially from prior quarters due to higher investment yields. Non-GAAP net income was $14.4 million or $0.64 per share. Non-GAAP net income for the year was $82.9 million or $3.66 per share. Accounts receivable at the end of the quarter were $41.2 million with DSOs of 61 days compared to $44.9 million and DSOs of 55 days in Q3. Inventory at the end of the quarter was $57.7 million, up from $45.4 million at the end of Q3 as we bought additional wafer safety stock to provide a cushion in the event of any future geopolitical or other supply chain issues.

During the quarter, we generated $5 million in cash from operations, invested $8 million in capital purchases and ended the quarter with $564 million in cash, cash equivalents and short-term investments, essentially flat with the prior quarter.

I'd now like to provide some financial guidance for the first quarter of 2023. The macro environment remains somewhat challenging, and it is clearly having an impact on industry-wide semiconductor demand. It also appears that many customers and especially their subcontract manufacturers over ordered when supply bottlenecks eased last year. This higher inventory, coupled with the current demand environment, has led many customers to reduce order rates as they work through excess inventory. And that is what we are experiencing now. Last quarter, we offered comments on Q1 of 2023 and said that revenue would be down sequentially from Q4 for 2 reasons. First, we expected the usual seasonal slowdown with our largest customer; and second, we expected a lull in comms and enterprise sales as our customers in those markets work through excess inventory.

Our view on Q1 remains consistent with the comments we made last quarter with one exception, and that has to do with our largest customer. As Rajesh mentioned, it now appears that their subcontract manufacturers have enough inventory to support their needs through the first half of the year. This means that sales to our largest customer will likely be nominal in both Q1 and Q2. To be clear, we have not lost any sockets with this customer. Therefore, once they work through this inventory, sales should rebound to more normal levels starting in Q3. As a result, we now expect Q1 revenue will be somewhere between $37 million and $39 million.

Gross margins will be down a few points due to the lower sales and will be approximately 60%, plus or minus a point. We will hold operating expenses relatively flat with Q4, so approximately $28 million. Interest income will increase to somewhere between $5 million and $5.5 million. Diluted share count will be approximately 23 million shares. So at the midpoint of that guidance, we, therefore, believe Q1 non-GAAP net income will be approximately breakeven. We also believe that Q1 will be the low quarter for the year that revenue will increase in Q2 and that once excess inventory gets worked down, sales should rebound nicely in the second half of the year.

I'd like to conclude my remarks by saying that even though we are going through this short-term dip, we firmly believe that our long-term growth story is intact. Our process and product developments continue as planned. We expect to introduce at least 5 more new product families this year with each spanning numerous derivative products. This will expand our SAM from about $1 billion a year ago to about $4 billion by the end of 2024. Design win and quote activity has been strong and that, coupled with new product introductions and an expanding SAM should lead to continued long-term growth.

And on that note, I'd like to hand the call back to the operator for Q&A. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Quinn Bolton with Needham & Company.

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

Just I wanted to start with just the environment. Obviously, it sounds like inventory correction is going to keep results fairly depressed in the first half of the year. But wondering if you might comment today, where do you think the natural level of demand? Or what do you think consumption of your products is running at on a quarterly basis so that as we start to snap back to that consumption, we have some sense what the revenue ramp might look like in the second half of the year?

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

Yes, that's a great question, Quinn. It's difficult to quantify that precisely. Clearly, the demand is substantially higher than the guide that we gave for Q1. As both Rajesh and I talked about, there is a lot of excess inventory in the channel. As I mentioned in my discussion, I think go back to 2021, and there were a lot of shortages in the industry. And when those shortages eased a lot of folks, a lot of our customers, and certainly, their subcontract manufacturers took advantage of the supply and over ordered. So they ended up with too much inventory. That has to get worked down. So I'm not going to put a number on it. But clearly, that is suppressing our revenue, I would say, substantially, certainly in Q1, and we will also do that in Q2.

I think if you just look at our historic numbers, I mean, for the year, we did $283 million in 2022, and there's some overbuying in that, I think, clearly in the first half of the year. But if you notch that down, that's going to be a normalized number for 2022. And I think longer term, our 30% growth rate is intact once we get through this dip. So people, I think, can kind of triangulate what the back half should look like and definitely what 2024 should look like given that kind of growth rate. So I know I didn't give you any numbers there, but I try to add some color to what we said earlier.

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

So maybe just trying to frame it, it sounds like that, the $284 million in 2022, obviously included some amount of inventory burn. It sounds like it could be ballpark $20 million to $40 million. And so it sounds like a run rate might be closer to $240 million, $260 million. Does that sound about right?

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

I would not dispute that number. I don't want to get tied down to an exact number, but I think the logic there is sound.

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

Great. And then just sort of a quick follow-up. Just as margins historically have trended or followed revenue, I assume that since you think revenue is troughing in the first quarter, that the 60% guide for Q1, do you -- would you expect that also to be the trough for the year and that as revenue grow sequentially through the rest of the year that gross margin would trend higher?

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

Yes, absolutely. And we've talked about this before. Even though we're fabless, we do have a certain amount of what I call fixed manufacturing overhead is the cost of our ops group and some depreciation on some of the back-end equipment that we own that's located at our OSATs. So -- and that's about 10 points of margin. So when the revenue is lower, the absorption rate is lower, and that's what drove lower gross margins from Q2, it was 65% and change down to -- I'm sorry, in Q3, down to 63% in the quarter that we just announced, and I guide down to 60% in Q1. So the direct answer to your question is yes, gross margins will increase as revenue increases. I would expect that we can exit the year with gross margins close to our historic margins. Again, we had gross margins just over -- non-GAAP gross margins, just over 65% for the full year that we just ended. And I think we should be able to get back to that level exiting this year 2023.

Operator

Our next question comes from the line of Chris Caso with Credit Suisse.

Christopher Caso - *Crédit Suisse AG, Research Division - Research Analyst*

So for the first question, I just -- I guess, based on what you provided in guidance, if you can give some color on the additional segments. I mean it seems like the guidance seems to imply sort of flattish revenue for both industrial and auto aero kind of enterprise and then a seasonal decline in the consumer part that's outside of your main customers. Is that a reasonable expectation? Any kind of color you could provide around that?

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

Yes, I think that's a pretty good analysis. Again, comms and enterprise will be substantially lower from Q4 to Q1 for the reasons that I mentioned, and that is our largest customers that's plural in that segment have enough inventory to get them through the first quarter. So their order rates are relatively low for Q1. So the biggest decline would be in comms and enterprise. In our auto and industrial segment in total, that's going to be flattish, I think, from Q4 to Q1. And then our IoT and consumer space, excluding our largest customer, will be flattish, but our largest customer, of course, will be down very substantially. Revenue to them, as I mentioned, was $15.5 million in Q4, and it will be quite nominal. Nominal means less than $1 million in Q1.

Christopher Caso - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. That's clear. As a follow-up, if you could speak about pricing for the remainder of your products. And Rajesh, you made it clear that a large number -- the vast majority of products are sole-sourced and knowing that those customers are buying the product for the performance. But as you see some of the more conventional quartz products decline in pricing. Is there a risk that the gap between SiTime's pricings and the more conventional pricings widened to the point that you do see some pressure. What are your customers telling you? And kind of what are you seeing in the market right now?

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

Right. The way I see it is that there are some products of SiTime's that have no comparable product, I would say that significant in comms and enterprise in a significant part of auto and clearly in the military aerospace business. That's also true in some of our other products, but let's just focus on this one. On this, we see no competition. We see no quest for lower pricing because our customers clearly understand how unique our products are in providing value. On the products that are pin-for-pin compatible, higher volume, typically in industrial, perhaps in consumer, maybe in some lower end of networking telecommunications, even there, [recall press] that we still sell at a premium price. That means that even in those markets, we sell in the higher end of that customer's product, which also means that we don't see any pricing pressure.

And to the extent we do, we have been able to adjust for it in a particular way that it doesn't impact us and continues to lead to growth in our blended pricing, including our largest customer for the last several quarters. So I'm very confident that SiTime is in a good position, primarily because of our highly differentiated products, whether they are in the focus markets or in our non-focused markets.

Operator

Our next question comes from the line of Alessandra Vecchi with William Blair.

Alessandra Maria Elena Vecchi - *William Blair & Company L.L.C., Research Division - Research Analyst*

Just some additional color on your largest customer. Should we be thinking about to take that much revenue out for the next 2 quarters, it really looks like they've been building inventory over the last year plus. Should we be thinking about like normalized rates for that customer more in the kind of 2019, 2020 time frame? Or do you think they can get back to 2021 levels at some point in the future?

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

Yes. I think they can get back to 2021 levels. Clearly, they overbought or more precisely, there are subcontractors overbought. But we haven't lost any sockets there. And they're a great customer of ours. We work very closely with them. So yes, I think we can get back to those types of numbers.

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

I think, Alex, there's been some decline in their natural demand. It's probably in the news as well. But in general, it has to have a very complex more than anybody else, they have a whole host of CMs. And I think that between the CMs and them, they -- it took a while for them to figure it out. But they did. And we look forward to any changed forecasting methods from them, and we have had some discussions on that.

Alessandra Maria Elena Vecchi - *William Blair & Company L.L.C., Research Division - Research Analyst*

Perfect. That's helpful. I was just trying to think about a more normalized level. And then similarly, not so hard on the consumer segment in general. But we've had conversations talking about the non-Apple consumer portion being allowed to sort of bleed out over time as customers maybe go back to quartz. But in the fourth quarter, it looks like revenue sort of increased sequentially. And I believe you said it would be flattish in Q1. Can you add some color on what you're seeing from customers in terms of their appetite to go back to quartz versus stay with you and how we should think about that over the next year or 2?

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

Yes. In general, as I said earlier, we see that wherever they have -- when our customers have differentiated products, they tend to use SiTime. And so we have found very little, if any, almost de minimis loss of business as a consequence of the increased availability of quartz crystal. So we think that ex our largest customer as well that our business with consumer continues quite solidly. And in fact, we continue to get some nice design wins that will help us in the second half of the year, I believe.

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

And Alex, I'll just add another comment to that. We have talked about that segment declining over time, but not going to 0. There are still, as Rajesh mentioned, customers in the consumer space where we provide real value. So we're not expecting those numbers to go to 0. And as I mentioned in my script, it was $9.2 million in the fourth quarter. That was up, what, $1 million, maybe $1.5 million from Q3. So I mean that's, I think, a reasonable run rate for us there. And over time, if we have the right customers, that could even go up.

Operator

Our next question comes from the line of Suji Desilva with ROTH.

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

I appreciate the gross margin guidance towards the end of the year and the confidence there. I want to understand if that -- I imagine it implies steady pricing is an assumption or if there's improved blended pricing in that assumption, to going back to mid-60s from end market or product mix uplifts?

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

Well, I mean, one of our basic themes and one of the ways that we got our gross margins to expand from the high 40%s 3 years ago when we went public to 65% for the full year that we just finished is that most of our new products are focused on the market segments that Rajesh mentioned, which are generally higher performance markets, we get higher ASPs and higher gross margins. So over time, as those new products become a larger percentage of our sales, that will continue to help expand our gross margins. And I think we'll see some of that certainly in the back half of this year and going out for a number of years.

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

That's right. And the confidence, I think some of the metrics that we get, Suji, are all related. Our ASPs, solidity and growth is related to our single source, it's related to our new products, and it's related to our SAM expansion. They are all 4 tied together, which is why it's all part of one strategy, deliver highly differentiated products that customers just got to have. And I think, of course, we see the benefit of that in the relatively short term in the coming quarters. But the real benefit for that is going to come in growth and stickiness in 2024 and 2025 and so on. So I think as those products, we talked about 9 products as they unfold in the marketplace as we get the design wins, I think it will be really good.

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

Okay. Great. And then my follow-up question is, those new products as they're coming in and winning -- I presume they're more focused on the non-consumer markets, auto, infrastructure data center. What's the design cycle there and for those programs to ramp? And is there sort of an elbow point when these new products were announced, some of them late in '22 that we start to see them come in through design win ramps?

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

Yes. So it's -- the typical thing would be to say that in the comms enterprise, automotive, aerospace, defense, a rule of thumb would be about 18 months to ramp to revenue. That being said, we actually see sometimes enough of a desire for our products that they get rushed to market quicker than we ever thought. Also, don't forget that while 7 out of 9 of these products are, in fact, meant for these focus segments, the remaining 2 are, in fact, for consumer, IoT and mobile and those balance it out by a shorter design win, let's say, less than a year and shorter time to revenue less than a year. And so to get to its full glory, I think it takes maybe 3 years for a product in the focus areas. But Again, a reminder that none of our products have ever been obsoleted from the time we introduced them 12 years ago, 13 years ago. So they still continue to sell. So that's an important way of understanding the value.

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

Yes. And again, these new products, this looks forward, but we also introduced a lot of products last year and in 2021 and going back to 2020. So even though some of these design cycles can be 1, 2 or 3 years, we have a number of products that are in the middle of those design cycles.

Operator

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

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

I had a question about your largest customer, especially as far as then moving manufacturing around. I mean, I think this is sort of in the public domain too. And I'm just wondering if some of this inventory build and subsequent reduction has anything to the diversification of the manufacturing base? Or do you think this is just more purely the [100] manufacturers building [too much] supply when supply was short?

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

Yes. It's a tricky question to ask, and there are some things we don't want to talk about too much. But I think they do have more CMs than anybody else. That's point one. The second point is that, we understand that in tough times, all CMs, many CMs over order for a variety of reasons, some good ones, some not so good ones. In the case of our largest -- historically largest customer, we have spent a lot of time in the past years looking at forecast directly from them and comparing it to forecast from the CMs. You can almost say that in some ways, we were somewhat instrumental in helping all parties understand what the real situation was. So SiTime has been a value-add player in all of this.

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

Yes. That's great perspective, Rajesh. And as my follow-up, your inventories. So again, given that your -- the sales to your largest customer is going to be basically nominal next 2 quarters, can you just give us some confidence in that $58 million in inventory. You mentioned most of it should be in wafer or in raw materials. So again, just wondering how we should think about that $58 million given the big drop-off is in the first half of the year?

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

Yes. So first of all, we consciously increased our inventory, as you mentioned, $57.7 million at the end of last quarter. And the increase is all in wafer stock. So as we've talked about many times, we get our MEMS wafers for Bosch. It's our process but their factory, and we get our CMOS wafers from TSMC. And we bought wafers from both Bosch and TSMC. And we did it to provide a buffer stock. If there's any type of geopolitical issues out there, if there is any type of supply chain issues out there, we have wafer stock that can support a number of quarters worth of sales. And remember, wafers do not go bad, they do not go obsolete. These can sit on the shelf for years and years and years, if needed. They're not going to sit on the shelf for that long. We will start to work it down over the next couple of quarters.

So you would expect it to come down during the course of the year to a certain extent, but wafers do not go bad and that gives us a lot of comfort. And quite honestly, this gives our customers a lot of comfort for the reasons that I just mentioned. If there are any type of supply chain issues out there with so many of our customers being single sourced with us, they cannot afford for us to not be able to ship something to them.

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

Yes, I wanted to underline some more on what Art said. I'm very comfortable with our inventory, and we have done this somewhat deliberately for 2, 3 reasons. One reason is, as we pointed out, none of our products have been obsoleted in the history of the company and wafers "don't go bad", that's one. The second is, 80% of our business is single source and as we head into the comms enterprise, automotive and aerospace defense markets, it's important for us to reassure our customers that they are in safe pair of hands. The third is, less defensive and more opportunistic or offensive. Nobody knows whether the back half of this year is a big -- the curve, right? We definitely expect it to be more than first half but there's a case to be made for it to be made for that to be a big snapback to -- be a real snapback in demand in the second half. I'm not saying that it will be. I'm just speculating that if it is, I think it gives SiTime a great position to be able to capitalize on that with our programmability, with our value proposition, and we think that, that it makes sense for that reason as well.

Operator

Our next question comes from the line of Doug O'Laughlin with Fabricated Knowledge.

Doug O'Laughlin

I was just wondering for the full 2023, will you be shipping below the run rate demand? I mean, we just don't know what the second half looks like. Now I was wondering if there's a possibility that the entirety of the year you'll be moving down the inventory? And then I have a follow-up.

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

Yes. So we will clearly be shipping below end demand, right, because our customers have to work through some of their inventory. So whatever we end up shipping, the end demand will have been higher. So I don't know if that's your question or if it has to do with our inventory.

Doug O'Laughlin

Okay. So I was more just trying to get the trajectory of the second half, right? Like there really is no way to know right now, but like -- for example, at some point in Q3, Q4, if your largest customer goes from essentially 0 to some amount, I'm just trying to get a better shape. I was just essentially trying to ask what Q3 and Q4 could look like on the other side, but I understand that's pretty hard to forecast. So could I ask another question?

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

Let me provide some comment on that. Yes, we believe that sales to our largest customer will come back strongly in the back half for 2 reasons. One, in the first half, they're going to have to consume inventory. That disappear -- that situation disappears in the back half. And the second piece of this is that our strongest business with this customer has always traditionally been in the second half of the year. If you go back and look at preceding years, that is -- we ship a lot more to them in the back half of the year than the first half of the year. So I firmly believe that our sales to that customer will come back relatively strongly in the back half of the year.

Doug O'Laughlin

Okay. Perfect. And then on the design win side, you talked about 300 applications in the prepared remarks. Is there some kind of -- do you guys track the application expansion? And is there a way to see how much that's expanded over, say, '21 or 2020?

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

We don't track it as a primary metric. It's one of the secondary metrics. What we track our design wins in particular segments rather than in particular applications. But I think it's safe to say that from the time that we went public, we've gone -- we have about doubled the number of applications. So in other words, we've probably gone from sub-150 to 300 applications, and we continue to add applications every month, really.

Doug O'Laughlin

Okay. And going forward with these design wins, do you think you'll be able to double that again? Like I'm just trying to get a kind of magnitude of the number of design wins like from the longer tail? Or is it going to be like a similar group of current applications that are just being sold into more and more, if that makes any sense?

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

Right. Like our funnel is very strong, right? Our funnel continues to grow very, very solidly year-on-year. Every year that we've been here, it's been growing a lot. And that's no surprise given that we've been adding new products and we've been marketing stronger and so on. So as long as our funnel growth continues, particularly around single source, particularly around our focus markets, particularly around our higher differentiated products, I think that the design wins will follow quite naturally. But we think that they will grow, but I couldn't say whether they double, and I couldn't give you that level of precision.

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

So Doug, another way to think about it is, we talk about our SAM a lot. And we calculate that SAM by looking at the different applications and how our products will apply to those different applications. Our SAM was $1 billion a year ago. Just recently, as Rajesh mentioned on the call, we think it's about $2 billion now. And by the end of 2024, we think it goes to $4 billion. And a lot of that SAM expansion comes from new products that are essentially going into new applications.

Operator

I'm showing no further questions in the queue. I would now like to turn the call back over to management for closing remarks.

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

Yes. I'd like to just say that I feel very comfortable. Obviously, the decline in our largest customer's revenue is not to our liking, but we understand the situation very well because, as I said, we helped get some clarification in it. So we have good insight into that. We are also on the second half of the year, as mentioned by Art, quite confident in the growth of their business. Ex that business, the rest of our business continues to do well. We continue to believe that Q1 is, in fact, the bottom and that we start to get back in Q2 and Q3, Q4, the -- it starts to ramp up. What the level of that ramp is? We're watching carefully. We obviously have strong views on that, but we're just watching for now, and we'll let you know as it unfolds.

Clearly, though, what makes me feel very good about the place where we are is that in all of this, our ASPs continue to grow. Our single-source position continues to be at 80%. Our funnel continues to grow. Our products are right on time. And given the -- even in spite of the complexity, we are able to bring them out and connect with our customers.

So all in all, I think we're in a great shape, and we'd love to give you more information as we go further in the quarter. Thank you very much.

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

Great. Thank you, everybody.

Operator

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