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PRESENTATION

Operator

Good afternoon, and welcome to SiTime's Fourth Quarter and Fiscal Year 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, Wednesday, February 5, 2020.

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

Leanne Sievers - *Shelton Group IR - President*

Good afternoon, and thank you all for joining us today on our first conference call as a public company. On the call from SiTime are Rajesh Vashist, our Chief Executive Officer; and Art Chadwick, our 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 statement.

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 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 to 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 S-1 filing with the SEC in November 2019.

Also during this call, we will refer to certain non-GAAP financial measures, which we consider to be an important measure of company's performance. These non-GAAP financial measures are provided in addition to, and not as a substitute for or superior to, 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.

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

Rajesh Vashist - *SiTime Corporation - CEO*

Thanks, Leanne. I want to thank you all for joining our call. Since this is our first conference call as a public company, I'd like to start with a brief description of what we do.

We are SiTime, and what we do is in our name. SI stands for silicon, and we make timing devices. Timing solutions are the heartbeat of every electronic system, and we're the leader in advanced silicon timing solutions. Our solutions solve complex timing problems and enable industry-leading electronics.

Uniquely, we're the only company worldwide that is focused on all aspects of timing. Traditionally, timing devices have used quartz; and, we're adding silicon or siliconizing the timing market and bringing with it the disruptive benefits of silicon, which are faster innovation, higher performance, reliability, robustness, and unique features that enable better electronics.

This is a trend that's been around. We know that digital cameras replaced film, LEDs replaced bulbs, solid-state drives replaced hard disk drives, and so on. And so, history shows that when silicon goes up against non-silicon, silicon always wins. And we believe we are on the right side of history as we replace quartz with our unique silicon MEMS technology.

SiTime is an analog semiconductor company, but we are different in some ways. We're different because we also do MEMS, which is microelectronic mechanical systems, and we do advanced system-level integration of the two.

SiTime has achieved our unique leadership by innovating in each of these three areas of expertise. For example, we have invested decades in MEMS design processes and simulation tools.

Our analog circuits are co-developed to work with our MEMS, and we have many specialized circuits, such as temperature sensors that set new benchmarks in performance.

On the systems integration side, our material science and thermal mechanical know-how is unique to the semiconductor industry and is important to our success. With these three areas of expertise, we can provide better solutions that allow us to go after the most value-added segments of the $8 billion timing market that we expect to grow to $10 billion in the next few years.

SiTime solutions have been designed into over 200 applications across our target markets, which are Enterprise and Telecommunications Infrastructure; Automotive, Industrial, Aerospace and Defense; and finally, Mobile, IoT, and Consumer.

Since our inception in 2006, we have sold products to over 10,000 customers. We have over 65 different products that can be programmed into tens of millions of part numbers.

Some of SiTime's customers buy our products for their high performance, environmental resilience, and reliability, while others buy it because of the small size and low power. We don't have time on this call right now to describe all the product variants, but I would like to talk about some of our newer ones.

One of our higher -- one of our new high-performance products is our Elite family of products. Elite is a TCXO, which stands for temperature compensated oscillator that provides a very stable clock frequency in spite of changes in ambient conditions. Such TCXOs are the heartbeat of 5G, data centers and other high-performance telecommunications and network applications.

In 2019, SiTime won over 200 design wins with this Elite product family. We began production shipment in 2019, and expect sales of Elite to drive sales growth in 2020, particularly in telecommunications and networking.

An even newer product is our Emerald platform, which provides higher performance than Elite. Emerald is an OCXO, which stands for oven-controlled oscillators. Here, we provide frequency stability that is an order of magnitude better than a TCXO. OCXOs are used in equipment that is at the core and the edge of telecommunications and networking, and I'm happy to report that SiTime won over 20 Emerald designs in 2019.

In order to get a view into potential future revenue growth, we track design win dollars. Total design win dollars in 2019 were up by more than 50% over design win dollars in 2018. This growth was due to greater adoption of SiTime's products as customers embrace our value proposition of high performance and reliability. Additionally, design win growth came from our newer Elite and Emerald products.

Finally, I'd also like to make a short comment on the coronavirus and the potential impacts of that on SiTime's business. So far, we have not seen any disruption to our business. From the supply side, we have talked to all of our major vendors, including wafer and assembly vendors, and they've all told us that the supply chain has not been impacted. None of our major vendors are located in Mainland China.

On the customer side, we've talked to our distributors and major end customers, many of whom we do ship product to in China. To date, none of our customers have asked for any delays in shipments to their facilities.

Many of our customers and vendors believe there will be more clarity on any potential business impact in mid-February, after the end of the extended Lunar New Year holiday. We plan to closely monitor the situation, and will provide updates if there's any material information to provide.

With that, I'd like to turn over the call to Art Chadwick, our CFO.

Art Chadwick - *SiTime Corporation - CFO*

Great. Thanks, Rajesh, and good afternoon, everyone. We are very pleased to be holding our first financial results conference call as a public company.

So today, I'll discuss our Q4 2019 financial results and will provide financial guidance for Q1. I plan to 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 the reconciliation of GAAP to our non-GAAP results.

First of all, Q4 was an excellent quarter for us. Revenue was $28.1 million, up 11% sequentially, and up 23% over the same quarter a year ago. Revenue for the year was $84.1 million compared to $85.2 million in 2018.

To provide some color on the breakdown of revenue by end markets, we have defined three major market groupings, and I'll report sales into each. The first is "Mobile, IoT, and Consumer", which consists primarily of sales into mobile phones, wearable devices, and consumer products. Q4 sales into this end market group were $18.6 million or 66% of sales, up from $17.5 million or 69% of sales in Q3.

The second grouping is "Industrial, Automotive, and Aerospace", which goes into industrial applications, automotive, aerospace, and military applications, and also includes what we refer to as broad-based sales, which are shipments to numerous smaller customers, where it's not as easy to track end markets. Q4 sales into this group were $5.3 million or 19% of sales compared to $5.2 million or 21% of sales in Q3.

The third grouping is "Communications and Enterprise", which consists of wireless infrastructure, including 5G, as well as data center, and networking. Sales in Q4 were $4.2 million or 15% of sales, up from $2.7 million or 11% of sales in Q3. We had just one customer where sales exceeded 10%, and that customer comprised 33% of sales in Q4 and 35% of sales for all of 2019.

Non-GAAP gross margins were 48.0%. Non-GAAP operating expenses were $11.1 million or 39% of sales, comprised of $5.6 million in R&D expense and $5.5 million in SG&A. Non-GAAP operating income was $2.4 million or 8.6% of revenue. Net interest and other expense was $0.4 million. So, this provided non-GAAP net income of $2.0 million or $0.16 per share on a fully diluted basis.

Accounts receivable were $17.7 million, up slightly from $17.3 million in Q3, with DSOs at 58 days. Inventory was $11.9 million, down from $13.0 million in Q3.

Our major financial event during the quarter was, of course, our IPO. We issued 4.945 million shares of common stock at $13 per share. This generated net proceeds after fees and expenses of $56.4 million. Our stock started trading on the NASDAQ Stock Exchange on November 21, 2019 under the ticker symbol: SITM.

In the fourth quarter, we generated $7.4 million in cash from operations. We used $3.2 million for assets and investments, generated $56.4 million from the IPO, and we paid down $5 million in debt. As a result, we ended the quarter with $41.0 million in debt and a cash balance of $63.4 million.

I'd now like to provide some guidance for the first quarter of 2020. First of all, we expect 2020 will be a strong revenue growth year. We have a number of new products and a strong design win funnel that we believe will ramp sales through the year.

However, we did have seasonality in our business in 2019, primarily in Mobile, IoT, and Consumer, and we expect similar seasonality in 2020. We expect revenue in the first quarter will be between $20 million and $21 million, which at the midpoint would be 38% higher than the same quarter last year.

Non-GAAP gross margins are expected to be between 46% and 47%, which is down from Q4 but only due to the lower sales level. Non-GAAP operating expenses are expected to be between $11.8 million and $12.0 million, which is an increase from Q4, due primarily to beginning of the year FICA taxes, a full quarter of costs related to being a public company, and new hires.

Net interest expense in Q1 is expected to be approximately $300,000, a decrease from Q4, due to the lower debt balance and to a full quarter of earned interest from our IPO proceeds. Based on this guidance, we expect Q1 non-GAAP EPS to be a loss of between $0.16 and $0.20 per share.

As we just mentioned, we have not seen any impact on our business due to the coronavirus, and our Q1 guidance assumes we will not be impacted this quarter. However, if the contagion worsens, there is always a chance it could impact us.

I would now like to provide a few additional comments for purposes of modeling anticipated stock-based comp expense, taxes, and share count for the year.

In regards to stock based comp, we issued approximately 3 million restricted stock units, or RSUs, to employees at the time of the IPO. These RSUs will generally vest over the next four years. The resulting stock-based comp expense will be approximately $2.7 million in Q1, $2.9 million in Q2, and approximately $3 million in each of Q3 and Q4.

For income taxes, the company had significant tax loss carry-forwards, which means we will have no federal or state income tax expense in 2020. However, we will have some nominal income tax expense related to foreign subsidiaries, but it should be less than $50,000 a quarter.

For share count, we had 10 million shares outstanding going into the IPO. We issued just under 5 million new shares on the IPO. So, we finished Q4 with just short of 15 million shares. Because the IPO was mid quarter, the average number of diluted shares in Q4 was 12.7 million.

Our share count will increase during 2020, as employee RSUs continue to vest, and with the addition of diluted shares associated with the accounting for unvested RSUs. Both the basic and diluted share count will increase to approximately 15.1 million shares in Q1 and 15.2 million shares by Q2.

In Q3, the basic share count will increase to approximately 15.5 million shares. However, in Q3, the accounting rules regarding unvested RSUs will likely kick in, and this will increase the diluted share count by an additional 1.5 million shares or so. This would take the Q3 diluted share count to 17.0 million shares and the Q4 diluted share count to approximately 17.2 million shares.

So in summary, we are looking forward to a robust 2020, and I'd like to turn the call back to the operator for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Blayne Curtis of Barclays. Your question, please.

Blayne Curtis - *Barclays - Analyst*

Thanks for taking my question and congrats on a great first quarter. You mentioned the new products, Elite and Emerald, and your Comm. business was up strongly. It's actually been up strongly the last two quarters. I'm wondering if you could talk about what types of products are driving that, and as you look into 2020, any color on the ramps that you see there?

Rajesh Vashist - *SiTime Corporation - CEO*

Yes, basically, the products are all over. As I mentioned before, it's in the networking and the -- and the telecommunications. So, we have design wins and ROUs for 5G. We have design wins in base stations. We have design wins in some of the satellite products. We have some design wins for Elite, in particular, the wider range. It includes some transmission line equipment. It includes data servers, which are wanting to true up high-performance data financial servers.

We expect this trend to continue. And what we also expect, Blayne, is that over time, since most of the telecommunications enterprise data center business is not as seasonal as the IoT, mobile, wearables business, we expect that that will flatten out the seasonality in subsequent years as we go forward.

Blayne Curtis - *Barclays - Analyst*

Great. And I'm just kind of curious. Obviously, new company for many people. You talked about normal seasonality into Q1. I'm kind of curious -- just curious what your perspective of kind of normal seasonal patterns for your company overall should look like.

Art Chadwick - *SiTime Corporation - CFO*

So Blayne, I'll take that. If you look at our revenue by quarter in 2019, you'll see that seasonality, right? Sales are much lower in the first half of the year, higher in the back half of the year. And that seasonality is, for the most part, driven by our Mobile, IoT, and Consumer business.

We go into a lot of wearables, for example. Sales of wearables increase in the back half of the year versus the first half. I think over time, as more of our sales go into the communications enterprise, auto, aerospace types of markets, you'll see less seasonality in coming years.

But for 2020, as I mentioned in my comments, we do expect to see seasonality, which we've seen in the prior year, and I think our guidance reflects that. And again, the decrease, for example, from Q4 to Q1, is based almost entirely on our Mobile, IoT, and Consumer business, and the seasonality associated with that.

Operator

Thank you. Our next question comes from Tore Svanberg of Stifel. Your line is open.

Tore Svanberg - *Stifel - Analyst*

Yes, thank you, Rajesh and Art, and congratulations on the IPO and this first quarter out of the gate. A few questions if I could. First of all, how should we think about gross margin progressing throughout the year? I know gross margin sometimes is a function of the revenue mix. So, as we continue to move throughout the year, and obviously, as your non-mobile segments become a higher percentage of revenue, how should we think about gross margin?

Art Chadwick - *SiTime Corporation - CFO*

No, excellent question. So, I'll start with our Q1 guidance. So, I am guiding gross margins down from Q4 to Q1, but the only reason for that is because of the lower sales volume.

One of the items that go into our gross margin is a fixed component of manufacturing overhead, and that runs about 10 points. So, as our volume goes down from Q4 to Q1, that impacts blended gross margins.

The upside to that is I would expect the dollar expense associated with that fixed overhead to remain relatively flat over the next couple of years. So for example, if our sales were to double in the next few years, for example, we would pick up five margin points. So that works -- it works both ways.

The other components of gross margin that will drive improving margins next year have to do with -- and you mentioned this, the segments and our products. The good news is our newer products, the Elite products, the Emerald products, have substantially higher ASPs and substantially higher gross margins than some of our traditional products. So, as those products become a larger percentage of our sales over time, that will improve gross margins.

The other thing that we want to do that will improve those margins is on the sales side. Right now, all of our sales go through distribution. But we're going to, in 2020, start taking some of those sales direct with our larger customers. We already have a direct relationship with our larger customers, but we want to start fulfilling those sales directly, and that essentially cuts out the middleman and improves gross margins.

So over time, we expect to be able to expand our gross margins. Our longer-term target is to get gross margins to between 55% and 60%. And just again, to quickly summarize, that comes from the higher margins on newer products, it comes from the leverage on our fixed manufacturing overhead, it comes on changing our sales distribution to go more direct.

And if you just look at the market segments that we're selling into, our fastest growth market segments are our higher margin market segments, such as communications, engineering, automotive, and aerospace. So over the next couple of years, we do expect to see some very nice gross margin expansion.

Tore Svanberg - *Stifel - Analyst*

That's great color. My second question is on your relationships with your customers. Obviously, you have disruptive products in a fairly substantial market, and I know you talked a little bit about the IPO, probably lifting the profile of the company. I was just wondering, ever since the company's gone public, how has that profile kind of changed with some customers, and especially some of the larger ones that you may consider going directly?

Rajesh Vashist - *SiTime Corporation - CEO*

Yes. I think, Tore, that's actually a great question. My observation is that I was expecting it to be a good list, but I think it's a better list than I expected.

I think that we have gone -- we have two things that we are doing that are different. One is timing products, as you know, are not much of a category on their own without SiTime. There aren't too many timing companies in the United States that just are pure play timing. In fact, there are none. There are a couple overseas in Japan and so on, but that's about it.

So I think by us being this pure play timing company and being a public company, which of course, brings tremendous credibility, our customers, particularly our Military / Aerospace customers, our Networking / Telecommunications customers, and actually, for that matter, I would say Consumer customers. We have large consumer customers who are looking at us very differently now and our ability to deliver higher-value products, and in fact, commit to us, more of a single source.

If you recall, I mentioned during the whole IPO process and at the Needham conference, that we get about 65% to 70% of our revenue from single-source products, which is a very unusual thing in the world of timing. So we think that that's increasing now because people believe they have the transparency of the company, they can see the company, they can see the strength of the company, they can see everyone from the board, the management, the technology, all down. So, I think it's just been a fantastic opportunity.

And as I mentioned, it's been better than what I thought in terms of getting more opportunities at new customers, but also much more single-source opportunities of the existing customers.

Tore Svanberg - *Stifel - Analyst*

Very helpful. Just one last question. You talked about, obviously, tracking design wins. I was just hoping you could elaborate a little bit on the geographic mix of those design wins. I mean I assume they are pretty global in nature, but if there is any concentration, if you could elaborate on that, that'd be great. Thanks.

Rajesh Vashist - *SiTime Corporation - CEO*

Yes. A couple years ago, we spotted a trend that the highest performance products like Elite, Emerald, the OCXOs, the TCXOs were happening more in the United States than anywhere else. So that was a new trend for us.

So, if you look at satellite, if you look at GNSS for transmission equipment, if you look at oil exploration, of course, networking telecommunications, I would say that the U.S. is probably the preeminent place where most of the innovation is happening.

After that, it's a little bit of a jump ball. We see a lot more happening out of Korea recently, and of course, out of Europe. China has not been significant in this regard for us at the very high end of the business, and Japan is generally more conservative, for example, places like Fujitsu, and so on, a little bit more conservative in going down this path.

But that's how I would rank it. A strong number one contender is the United States, followed by about equal between Korea and Europe, and then Japan.

Tore Svanberg - *Stifel - Analyst*

Very helpful. Congratulations again.

Operator

Thank you. Our next question comes from Quinn Bolton of Needham & Company. Your question, please.

Quinn Bolton - *Needham & Company - Analyst*

Hey, guys. Congratulations on the nice results in the first quarter, post IPO. I wanted to come back. Obviously, you've got the three segments. I'm wondering if you might be able to give us your expectations on kind of the rank order for which segments grow fastest this year and which may grow more slowly.

And then sort of a related question. You've talked a lot about Emerald and Elite on this call. Those 200 wins for Elite and 20 for Emerald, do they start to ship in the second half of 2020? Is it -- is it a little bit more back-end loaded with those design wins?

Rajesh Vashist - *SiTime Corporation - CEO*

Yes, they are, on that one, I'll answer and then I'll let Art answer the first one.

The Elite has been around since 2018. So, we've had design wins starting in mid-ish 2018. So we actually started shipping in 2019 with Elite. But Elite is definitely going to be generally slowly growing between Q1 to Q4. But there are a couple of design wins that, if they really hit as big as they say that would, that could start as early as Q2. But we don't -- we obviously have to wait and see on that.

On Emerald, it's definitely back-end loaded because the shipments are definitely going to be relatively small shipments in the first half and significantly higher in the second half. In any event, Emerald volume will be still pretty small. But then the ASPs are -- as we have talked about in the past, are anywhere from $17 to $35, so significant price.

Art Chadwick - *SiTime Corporation - CFO*

Great. And then in terms of growth rates for these different market segments, first of all, all three of these market groupings are important to us. But in terms of growth rates, probably the smallest segment today, which is Communications and Enterprise, and as I mentioned, that includes wireless infrastructure and especially 5G, including data center and networking, there's $4.2 million in Q4.

This is probably our highest growth market that we're addressing today, partly because that's where we provide the most value add. The newer products that we just talked through go into these particular markets.

So, our highest growth market is -- I would say is the Communications and Enterprise market, followed probably by the Industrial, Automotive, and Aerospace market, kind of for the same reasons, and then followed by the Mobile, IoT, and Consumer market. But I don't want to put down any of these markets. They're all important markets to us.

Quinn Bolton - *Needham & Company - Analyst*

Great. And then a sort of second question, maybe related. You talked about taking some of your larger customers direct this year. How does that -- how does that process layer in? Is it sort of throughout the year? Does it tend to happen in lumps, either in the first half or the second half? And is there any step up in OpEx that we should be thinking about as you convert some of the customers to direct model from sales through distiys? Thanks.

Art Chadwick - *SiTime Corporation - CFO*

Yes. No. Great questions. No, it'll happen on an ongoing basis throughout the year as we phase different customers into this program. And I don't really expect an increase in OpEx as a result of this. This is just sales fulfillment. So, in other words, instead of shipping to a distributor who then just ships to our major customer, we'll just ship it directly to our major customer.

For our major customers, we already have direct relationships with them. We work closely with them on design wins. So, my discussion of gross margins and going direct really has just to do with sales fulfillment, and that really will not require any increase in OpEx, which is all good news for us. But it does help us with our gross margins. Because when you cut out the middle guy, then we get that difference.

Operator

Thank you. Our next question comes from Suji Desilva of ROTH Capital. Please go ahead.

Suji Desilva - *ROTH Capital - Analyst*

Hi, Rajesh. Hi, Art. Congratulations on the good quarter out of the gate here. In terms of the percent of business you talked about here, moving direct, can you talk about what portion of your revenues can be moved to direct to understand the gross margin potential? And then on the flip side of that, the broad-based business, I think it's about 10% of revenues now. What can that grow to exiting the year, just to understand both sides of this?

Art Chadwick - *SiTime Corporation - CFO*

So in terms of what percentage of our revenue will go direct, I mean, we're starting at zero. So, it'll go up from there. And I don't really want to put a percentage on it. But I do expect that it will become more material over time, certainly through the course of 2020, and continue into 2021, and beyond. So, I think what's important here is the trend, and I'd rather not put a percentage on it.

And in terms of our broad-based sales, this is actually a pretty exciting area because we've got a number of programs that we're implementing to go effectively direct to a number of these customers with direct marketing, and I think that we're expecting some very nice sales growth in the broad-based sales. I don't know if Rajesh (multiple speakers) --

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Rajesh Vashist - *SiTime Corporation - CEO*

Yes, and I'll just add to that. Exactly right, Art. I will just add to that. Our vision is that there's 120,000 customers for our products worldwide. The way I come at that is because I know that some of the very large microcontroller companies have said that, that they have 100,000 to 120,000 customers worldwide, and we know that microcontrollers -- those who use microcontrollers need timing devices.

So, looking at that broadly, the fact that we have 10,000 customers to date is a pretty small number. While it's pretty impressive, it's a pretty small number. So, a few years out, three, four, five years out being at 30,000 customers, for example, would be kind of a good goal for us to reach.

And we would come at it from a self-service -- we have a self-service program, which is getting a significant amount of information about timing devices to the customer. We would not be selling on our website. We'd just be directing them to sites that will allow them to sell: our partners, our resellers, our channel partners.

And also, from our Ukraine office, we also have a significant amount of customer support that is taking care of the feed and care of these people. We have an excellent group of people there who are doing that.

So, I think the combination of the two, followed by digital marketing campaign, which is relatively new for us, I think we'll proceed through the year. And this is all new for us. We'll be learning along the way, but we think it's a very, very important initiative.

Suji Desilva - *ROTH Capital - Analyst*

Okay, great. And then for my follow-up question. Just looking at the first quarter, I know that the Consumer part of it will be seasonal. Are the other two segments Industrial, Auto, and then Comms going to be up in the first quarter, or are they impacted by seasonality? And then longer term on the 5G wireless infrastructure, will that be a steady growth pattern or will there be an inflection quarter as soon as customer programs start to ramp?

Art Chadwick - *SiTime Corporation - CFO*

Yes. So, in terms of the other market groupings Q4 to Q1, right now, we expect them both to be up just slightly from Q4 to Q1. The real impact from Q4 to Q1 is the seasonality in the Mobile, IoT, and Consumer space.

Suji Desilva - *ROTH Capital - Analyst*

And then the 5G, Art, the linearity of that?

Rajesh Vashist - *SiTime Corporation - CEO*

Yes. So, I think we use 5G as a shorthand, but this influences networking, satellite, GPS, industrial GPS, and so on. So we think it'll be growing steadily. There may be inflection points as a big -- there's a big rollout by one or another. But generally, we expect a broad rollout over the next four or five years. This is a several-year-long event that I see.

Suji Desilva - *ROTH Capital - Analyst*

Okay. I appreciate the color. Congratulations on the good start.

Operator

Thank you. Our next question comes from Chris Caso of Raymond James. Your line is open.

Chris Caso - *Raymond James - Analyst*

Yes, thanks very much. Just first question, also related to margins. And Art, if you could help us to calibrate the margin impact of the various segments as the mix changes, as the year goes on, and help us to quantify a bit about, which segments are above or below the corporate average, and by how much?

Art Chadwick - *SiTime Corporation - CFO*

Yes. So again, the gross margins are highly correlated with the level of performance. So on our newer products, higher performance are higher ASPs, higher gross margins. So that's clearly going to go into more of our Communications and Enterprise markets, and Automotive, Aerospace, Military. Again, higher performance, higher ASP, higher gross margins.

But I don't really want to go into what gross margins are by market grouping at this point. I think that's just a little bit more detailed than we want to share at this point.

But I think that the basic message is very clear: Our newer products are higher performance, higher gross margins. They will become a larger and larger percentage of our sales over time, and that'll drive, I think, nicely higher gross margins over time.

As I mentioned earlier on the call, we've got a gross margin target of 55% to 60%, so that's up 10 points, plus or minus, from where we are today. And we feel pretty comfortable that over time we've got a good roadmap to get there based on the new products, growth in these higher-margin segments, the overhead leverage that I mentioned, and then taking sales direct.

Chris Caso - *Raymond James - Analyst*

Great. That's helpful. Thank you. Just as a follow-on question, perhaps you could speak in general terms, and I understand the growth of the company is really dependent on new design wins, getting new penetration, and I guess with that, how much exposure do you have, either on the upside or downside, to growth in the end markets? And as we track automotive units, 5G base station rollouts and that, how important is that to the growth profile of the company as compared to just getting -- just the fact of getting new design wins?

Rajesh Vashist - *SiTime Corporation - CEO*

Yes. So, we definitely are dependent on new initiatives, but it depends a little bit on how you define a new initiative. Clearly, a 5G new initiative is -- everybody would agree it's a new initiative. But is a smart watch that is always connected, regardless of connection to the phone, is that a new initiative? We think so. We also think that smart meters are new initiatives in -- for electricity but also for gas and water. Those are new initiatives.

So, in that sense, we are dependent upon new initiatives because the newer products are the ones that want more high performance, smaller size, greater reliability, et cetera.

So the good news is that we have something like 250 -- 200 to 250 to 300 applications. And so, to the extent that, let's say there's a slowdown of 20% in some of these applications, and so for 200 applications that's down to 150 applications that are moving up, we think that's fine, and that's the strength of the company. The strength of the company that I had mentioned in the roadshow to our investors is that we are probably the most diverse small company that has come into the market in a long time.

We are diverse in our customers, we are diverse in our applications, we are diverse in our products, we're just diverse in our product range. I mentioned $25 price for Emerald, and we sell products at $0.25 as well.

So that's a huge range, and I think that's the strength of the company that allows us to withstand slowdowns in specific markets because we are on five or six, seven stools -- legs of the stool, rather than a couple of legs of the stool, like many companies are. I hope that's helpful.

Chris Caso - *Raymond James - Analyst*

It is. Thank you.

Operator

Thank you. At this time, I'd like to turn the call back over to Art Chadwick for closing remarks. Sir?

Art Chadwick - *SiTime Corporation - CFO*

Great. Thank you. Well, I just want to close by saying thanks to all of you who are listening to our call. We are very excited about our business. We're excited about the coming year.

We're also going to be attending two financial conferences later this quarter: In March, we're going to be presenting at the Raymond James Conference in Orlando on March 3, and we're going to be presenting at the ROTH Capital Conference on March 16, and both of those conferences and presentations will be web streamed, so please listen in.

Again, thanks everybody for joining us today, and we look forward to reporting our continued progress on our next earnings call. Thank you very much. Have a great afternoon.

Rajesh Vashist - *SiTime Corporation - CEO*

Thanks. Bye-bye.

Operator

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