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SITM.OQ - Q3 2021 SiTime Corp Earnings Call

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## PRESENTATION

**Operator**

Good afternoon, and welcome to SiTime's Third Quarter 2021 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, Wednesday, November 3, 2021. I would now like to turn the call over to Brett Perry of Shelton Group Investor Relations. Brett, please go ahead.

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**Brett Perry** - *Shelton Group - VP*

Good afternoon, and welcome to SiTime's Third Quarter 2021 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 this call, the company may make forward-looking statements regarding expected future results, including financial position, strategy and plans, future operations, the timing market and other areas of discussion. It's not possible for the company's management to predict all risks nor can the company assess the impact of all factors on its business or the extent to which any factors 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 events 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 change the company's expectations. For more detailed information on risks associated with the business, we refer you to the risk factors described in our 10-K filed on February 16, 2021, 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. Please refer to the press release issued today for a detailed reconciliation between GAAP and non-GAAP financial results.

With that, I'd now like to turn the call over to Rajesh for his opening remarks. Please go ahead.

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

Thank you, Brett. Good afternoon, and thank you for joining us on today's call. I'm pleased to say that SiTime continues to achieve tremendous growth, with Q3 revenue up 42% sequentially and up 93% year-over-year. Additionally, in every quarter for the past 6 quarters, we've consistently grown revenue and margins year-over-year. It's clear to me now that we are in a new phase of sustained high growth and that SiTime is in the early innings of a long game. This is the market of our choice, of high performance, high availability timing, driven by adoption in new applications across multiple end markets, such as communications, enterprise, automotive, industrial and medical.

As a result, we are focused on taking advantage of this unique opportunity through an aggressive customer acquisition strategy. We're continuing to seize the initiative by accelerating development of new high-value solutions that customers need. While we never underestimate competition, as of now, a credible, competitive timing threat is not visible. We believe SiTime will continue driving high growth rate for years to come.

Looking back at the COVID-driven disruptions over the last 18 months, we were challenged by the changes in our business and the overall market dynamics. We now see this as a crisis -- we now see this crisis as a trigger for a long-term change in end markets, one that is driving rapid adoption of new, higher-performance technologies that need precision timing. The automotive and data center/enterprise markets are great examples of this trend, and we believe they could each become a $100 million business for SiTime over the next few years. Particularly, the automotive market has recently latched on to the value proposition of our products due to the increased popularity of EV, electrical vehicles, which use more electronics than the average car. Highlighting that strength in this market is the fact that our largest automotive customer is expected to emerge as our #2 customer in 2022.

In data center, data center continues to be a fast-growing end market for us. A few years ago, we started winning designs in server storage cards at Tier 1 data center customers. Since then, we have won designs with 10 customers in 8 high-value applications like servers, high-speed Internet, smart NICs and acceleration cards. Additionally, the density of SiTime design wins, that is the number of design wins per unit -- system unit in data centers is increasing.

Previously, I had referenced our companion approach, where we have designed them with one anchor SiTime product, such as an Elite Super-TCXO and then we get to sell additional products in the system that are companion chips to that super TCXO. With this approach, we believe that the customer gets a better solution and we increase, of course, the SiTime dollar content by sometimes up to 3 times, or 3x. Today, we have 7 customers in the data center market, each using a combination of 2 to 4 devices from SiTime such as Super-TCXOs, clocks, differential oscillators and so on. The opportunities at these customers are already worth $30 million in annualized revenue using this approach.

With our newer, higher-value products, we are accelerating our market penetration, and the SiTime 9501 differential oscillator is an example of this. We announced this product a year ago and have gained excellent traction in data center, optical and networking customers. Where we initially expected to have 15 design wins, for example, we now have 30 with an additional 50 opportunities. This together makes up a funnel of over $50 million in annualized revenue, far exceeding our expectations when we launched the product. Our 2022 forecast on this product has grown 4 times, or 4x, from the beginning of 2021 as we continue to grow the opportunity pipeline in these markets.

We also see an emerging trend where technologies and products developed for one market are being adopted in others, which opens up, of course, additional opportunities for us. For example, the data center architecture is now being used in CU, or Centralized Units, and DUs, or Distributed Units, in the ORAN infrastructure, in the open radio access network structure. This creates incremental demand for our high-precision oscillators and clocks. And another example is the adoption of Ethernet connectivity -- or Ethernet-based connectivity in cars, which in turn generates incremental demand for our automotive-motor grade differential oscillators, which were not used previously in this application.

SiTime is a product innovation company. And with these innovations, we're increasing the rate of our new product introductions, again, to accelerate customer traction. In 2020, we introduced 3 new major products. In 2022, we will double the introduction rate with 6 major products. Our innovation rate will continue to grow in subsequent years, and this will drive to a higher customer adoption across multiple segments and applications.

Regarding the supply chain environment, we expect current supply constraints to continue through 2022. SiTime has been very successful at navigating this tight situation with our close partnerships with wafer fabs and a multi-source supply chain. While this has increased product costs, and these will increase over time, our product value has helped to sustain higher prices, which has, of course, favorably benefited our gross margins.

The need for customers to secure supply, along with the advantages offered by our supply chain compared to the alternative technology using quartz, has continued to provide a favorable environment for SiTime to negotiate longer-term customer contracts.

In summary, the "World of timing" is enormous. There are many pieces that SiTime today doesn't yet touch or compete in. Given the strong competitive moat of our precision timing solutions, we are acting now strongly to take advantage of this unique opportunity. This includes investing in further expansion of our product portfolio and an aggressive customer acquisition strategy. I look forward to many years of growth at SiTime.

With that, I will now turn it over to Art Chadwick, our CFO.

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

Great. Thanks, Rajesh, and good afternoon, everyone. Today, I'll discuss third quarter 2021 financial results and provide some guidance for the fourth 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 our GAAP to non-GAAP results, which exclude stock-based compensation and related payroll taxes.

Well, first of all, we had another great quarter on multiple fronts. We had strong revenue growth and significant increases in gross margins, operating margins, net income and cash flow.

Revenue for the quarter was $63 million, up 42% sequentially and up 93% year-over-year.

Sales into our Mobile, IoT and Consumer segment, which consists of sales into mobile phones, wearable devices and consumer products, were $31.9 million or 51% of sales. This was up 47% sequentially and up 53% over the same quarter last year.

Sales into our Industrial, Automotive and Aerospace segment, which includes sales into automotive, industrial, medical, aerospace, military and broad-based sales, were $20.9 million or 33% of sales. This was up 54% sequentially and up 227% year-over-year.

Sales into our Communications and Enterprise segment, which consists of wireless infrastructure, including 5G, data center and networking, were $10.2 million or 16% of sales. This was up 11% sequentially and up 90% over last year.

Sales to our largest end customer accounted for 20% of sales this quarter and of that business, more than 90% was nonphone.

We had another step function increase in gross margins this quarter. Non-GAAP gross margins were 66.9%, up 560 basis points sequentially and up 1,480 basis points year-over-year. Gross margins were up due to a strong pricing environment, some high-margin turns business and increased leverage on our manufacturing overhead.

Non-GAAP operating expenses were $20.1 million, comprised of $9.9 million in R&D and $10.2 million in SG&A.

Non-GAAP net income was $21.9 million or 35% of sales, with earnings of $1.03 per share. This was more than double Q2 non-GAAP net income of $9.6 million and EPS of $0.46 a share.

Stock-based compensation expense and related payroll taxes were $8 million.

Receivables were $32.5 million, with DSOs of 47 days, down from 52 days last quarter.

And inventory was $19.6 million, up slightly from $18.5 million last quarter.

We generated $24 million in positive cash flow from operations and invested $10.5 million in CapEx. As a result, we increased our cash balance by $13.5 million and ended the quarter with $267 million in cash and no bank debt.

I'd now like to provide some guidance for the fourth quarter of 2021.

The positive trends we have been experiencing will drive further growth in Q4, with sales increasing between 10% and 15% sequentially. At the midpoint, this would be approximately $71 million and we expect sales to our largest customer will be about 20% of sales.

We expect Q4 gross margins will be between 64% and 66%, down slightly from Q3 due to seasonally higher consumer sales.

Operating expenses will increase as we expand our workforce and invest in customer acquisition and new product development. We expect Q4 non-GAAP operating expenses will increase between 10% and 15% sequentially, which at the midpoint would be approximately $22.5 million.

The basic share count in Q4 will be approximately 19.4 million shares. The dilutive effect of employee RSUs will add approximately 2.1 million shares, taking the total expected diluted share count to approximately 21.5 million shares.

Based on this guidance, we expect fourth quarter non-GAAP EPS will be between $1.05 and $1.15 per share.

Though we're not giving formal guidance for next year, I would like to offer a few comments. We believe the strong trends we are experiencing this year will continue. We plan to aggressively invest in customer acquisition, product innovation and expanding our markets. We are well positioned for significant growth and believe we can grow revenue next year by at least 30%.

We will continue to execute on expanding gross margins, but there will be some material cost headwinds. Wafer and back-end manufacturing costs are going up. For example, TSMC has publicly stated they are raising prices by 20% or more. We also expect increasing assembly and test costs. These higher manufacturing costs will likely depress gross margins by up to 2 to 3 points, all else being equal.

Over the last 2 years, we've managed OpEx growth at about half the rate of top line growth, which helped expand our operating margins. Now that margins are closer to our target range, we will likely manage OpEx growth at a rate closer to our top line growth. This will allow us to invest aggressively while still maintaining healthy operating margins.

I'd also like to make a comment about CapEx. One of the impacts of the pandemic is that it has limited manufacturing capacity at some of our assembly and test subcontractors. In response, we have been purchasing some of our own manufacturing equipment, which we locate at our subcontractors, to add dedicated capacity and to lower costs. We plan to add additional capacity next year, increasing our CapEx budget from approximately $30 million this year to approximately $40 million next year.

So in summary, we are having a great year. Our customers are clearly recognizing our value proposition. Our product portfolio continues to expand with differentiated products that address large and growing markets. We have an enviable list of Tier 1 customers, a strong balance sheet and expect further growth in Q4 and beyond.

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Your first question comes from the line of Tore Svanberg from Stifel.

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

Congratulations on the very stellar results. First question for Rajesh. You talked about auto obviously being a very important market for you next year. It sounds like data center, too. Between those 2 -- and I know this is a difficult question to answer -- but between those 2, which ones do you think will grow relatively faster for you in 2022?

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

Yes. Thanks, Tore. I think data center is the relatively easy answer. It's also somewhat the cautious answer. Automotive, as I indicated last time and this time, was a bit of a surprise for us. We didn't quite appreciate, like a lot of people, the surge in electric vehicles and the surge in timing solutions, specifically when that electric vehicle surge happened. The data center market, enterprise market is certainly well understood. But -- and so because of that, it's the clear, safe and obvious choice.

On the other hand, as time goes on, I expect that automotive will transition -- continue to transition to electric vehicles, as we know. And so perhaps it's more of a short-term, long-term conversation rather than anything else.

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

Very good. And as my follow-up, can you just elaborate a little bit on the gross margins? So obviously, it's an incredible number and you've talked about that being driven by mix. The mix obviously improved away from some of your more consumer markets. But I would think that even within the mobile and IoT business, that the gross margin went up. And then when you talk about next year with sort of 2 to 200 basis points pressure, just to clarify, is that from the current level or would that be from the average gross margin in 2021?

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

Well, certainly from the average gross margin in 2021, and that's all else being equal. Again, I mentioned that we still have a number of initiatives in the company to increase gross margins. As you know, our newer products are generally higher ASP, higher gross margins -- higher ASP, higher performance, higher gross margins. So as those become a larger percentage of our sales over time, that will improve gross margins. We still get leverage on our manufacturing overhead as the top line increases. But we do have the headwind with increasing material costs, as I mentioned in my commentary.

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

Great. Just one last one, if I could. When you talk about at least 30% growth next year, I assume you have already very good visibility towards that number, for either one of you.

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

Yes. So we didn't talk about it on this call. But in past calls, we talked about the fact that our customers are placing orders many quarters out. So that has given us the best visibility we have ever had. So we believe we've got excellent visibility into next year. So we're putting a floor on what we think our growth rate is. If things work well, it could be higher. But right now, we're comfortable saying that we believe we can grow at least 30% next year with good visibility.

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

Sounds good. And congratulations again to the whole team.

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

Great. Thanks, Tore.

**Operator**

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

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

I echo the congratulations. Maybe just one question. Given the large market sizes again for data center and automotive, can you update us on how you're seeing the SAM now for MEMS oscillators? I believe in the past, you referenced it in the $1 billion to $1.2 billion. Just trying to think about the total opportunity there and what the market share could look like or what the share of MEMS as a percentage of overall timing could look like.

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

Right. When we went public, we said that we saw the MEMS timing oscillator market, which excludes the resonator, which excludes the clocking, to be $600 million, and that's what we thought. Since then, I would revise my number up to, as of now, the visibility is $1 billion, maybe a little bit more than $1 billion. But then at the same time, we see the resonator market also growing in the future. We see the clocking market also growing in the future.

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

Okay. That's helpful. And then just in terms of the revenue breakout for next quarter, I'm not sure if you can provide a little bit of just color on the fastest-growing versus maybe slowest-growing end markets. I would assume global IoT is the fastest. But relative to seasonality, what do you expect?

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

Yes. I didn't want to get too granular with that. I will say that it will be increasing in all 3 market segments. Certainly, consumer is generally stronger in the fourth quarter, but it is increasing in each and every segment. And I'll provide a detailed history once we finish Q4.

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

Perfect. With that, I'll go back in queue. And congratulations again.

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

Thanks, Alex.

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

Thanks.

**Operator**

Your next question comes from the line of John Pitzer from Credit Suisse.

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**John William Pitzer** - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Congratulations on the solid results. Rajesh, -- notwithstanding a lot of the secular drivers you have here, I mean, clearly, the entire industry is benefiting cyclically right now. And I think a lot of us on this side of the world are trying to differentiate what's cyclical driving the business versus structural. So I wondering if you could just help us out. As you think about pricing year-to-date, how much has that benefited you? To what extent has that been like-for-like ASP increases versus maybe mix-adjusted, which might be more sustainable on a secular basis?

And I think last quarter, you talked a little bit about some of the quartz supply constraints that were out there that were opening up opportunities for you. Is that still the case? And I think I asked this question 90 days ago. If and when the supply situation in quartz changes, would you expect some of these gains to reverse?

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

Yes. Let me try and not answer your question in the first 1 minute. Let me give you the picture as I see it and then I'll come and answer your question directly, John. The theme in our -- one of the key themes in my remarks -- prepared remarks is really about customer acquisition. So we do see a constraint in the market in quartz. We do see that on the other side, there's a boom in the demand. So both things are true. There's a significant increase in the demand, and the supply continues to be constrained. To the extent that there's new capacity added, which I'm not an expert in, I would say that it will take time maybe well into next year.

Having said that, the point that I want to make is that our view is that whether customers come to us for performance reasons or they come to us for supply chain, programmability, availability, give me what I need when I want it, when I need it, customers, I believe, strongly I believe, will stay rather than go back.

Now will the pricing piece -- the pricing ability change? Yes, I think it will, and it will go down. But remember that well before COVID, well before the tightness, we were already single-sourced in about 80% of our revenue. Instantly, that gives us a pricing advantage anyway because by definition, the only time somebody gets single-sourced is because they absolutely positively meet the performance, meet the supply, meet the quality and therefore, pay the premium pricing for a premium product. So I think that's kind of baked into it.

As to the larger question of how much of it is secular and how much of it is fleeting, shall we say, I will say that in the SiTime case, because our solution is not well understood before, because we're a tiny company, we're a $200 million company in an $8 billion market or $7 billion market, so we are tiny by any measure, so by definition, we're not known as well, we're not recognized as well. Because we are -- this shortage and this tightness and this demand has increased the search for alternative solutions, which happen to be better, I think that our secular demand and our cyclical demand will continue to go lockstep. And I think we'll sort of pretty seamlessly merge without too much of a bump. That's how I see it. I don't see a big bump coming where, whoops, sorry, so many of our customers have evaporated because they didn't really need us. That could happen now, but that's not how I see it.

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**John William Pitzer** - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

That's helpful. And then maybe as my follow-up, Art. When you talk about the gross margin outlook for calendar year '22, I appreciate that you're going out further than you might normally would, is there any price concessions that you're baking into that? And I'm a little bit surprised that you're talking about cost pressures. Not that you're talking about cost pressures, but that you're not able to pass them along. Most of the companies we're talking with are at least raising pricing to keep up with costs. Why don't you have that ability next year?

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

Yes. We do, actually. We do have that ability. We just don't want to be egregious. When our customers commit to us for being a single-sourced customer, even in those times, our premium was not an egregious premium. It was a fair premium. We all know semiconductor companies that have taken somewhat, shall we say, undue advantage of their pricing power in the past. And when things change, when a competitor shows up, the customers can't wait to get away from them. We all know examples of those companies that we could share.

I don't want SiTime to be that, and we are not that. We have a fair price, a fair premium for a premium product, and we continue to have that. Now from time to time, that changes and we pass on more of the costs. But generally, we want to modulate that a little bit before we just pass on to it because we are very aware that our customers are in a very tight place and we want to be treating them with the respect that they deserve without putting us ourselves in some tight spots.

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

Yes. And John, I'll add to that. As I mentioned, there are still a number of initiatives that will drive higher gross margins for us that I mentioned. Some of it is increasing prices. It's the mix with our new products entering the market. It's manufacturing overhead leverage. So those things are all positive trends. And I mentioned the cost issue just because it's a real issue. It will depress gross margins by, I said, up to 2 to 3 points. That's all else being equal. So I'm not saying that gross margins are going to go down 2 to 3 points from where we are today, but they're going to go down 2 to 3 points from where they would have been had we not had any cost increases.

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**John William Pitzer** - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

And then, guys, if I could sneak one more quick one in. Rajesh, just now that you're going to be growing OpEx and reinvesting in the business organically a little bit faster than you have, any sort of color on specifically where that dollar is going to go? Is it really just customer acquisition? Or should we expect the rate of new product introductions to increase? Any color there would be very helpful.

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

Yes. As I said in the part about new products coming in, we introduced in 2020 three major new products. We have multiple derivatives that come off these. But in '22, we're going to double it. We're going to go to 6. Each of these products is a major initiative in MEMS, in analog, in systems, in test, in operations. So each of these takes up a lot. But I think we're going to get the benefit of that. We're going to introduce a number of products for sampling next year and again, another number of products for sampling in the year after. So that's one place where they go.

As far as customer acquisition goes, I think we have a very, I think, ambitious strategy of growing our customer base. First of all, in the broad base, where, as you know, we have around 14,000 customers. We would like to increase that over the next few years significantly. Ideally, I'd like to double it if possible over the next 5, 7 years.

To do that, we have to have the support structure, the software, the infrastructure to go after that. On the OEM side, let's say 500-or-so OEMs, I think we continue to do service, technical support, segment analysis and marketing and delivering customer products that fit exactly the marketplace. So this is hard work because it's never been done before in the timing world. And so we are coming out with products that span customer needs and so are therefore harder to dislodge by point products that might show up at some time when a competition shows up.

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**Operator**

Your next question comes from the line of Quinn Bolton from Needham.

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

I'll offer my congratulations as well. First, I wanted to start with a near-term question. Art, I think you said in your script that you had seen or were able to capture some high-margin turns business, which sounds like it obviously not only helped revenue, but perhaps helped gross margins as well. And I'm wondering, if you look into the December quarter, is there opportunity or do you expect to be able to continue to capture some of that high-margin turns business? Or was that perhaps more onetime in nature?

And then for Rajesh, as you look longer term, you talked about a $1 billion MEMS oscillator TAM with really no competition in sight. And so when do you think you get to that $1 billion TAM? Is that a '24 or a '25 number? And do you expect any competition in the MEMS timing market by the end date of that TAM?

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

Yes. So Quinn, good question. Yes, as I mentioned, some of our higher revenue and some of our higher margin was a result of high-margin turns business, customers that needed product and was willing to pay a premium price for it. And I expect the same to happen in Q4. I actually expect the same to continue into 2022, maybe not at the same level, it's hard to say at this point, but certainly through the end of this year.

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

And has that been factored into the roughly $71 million revenue guidance at the midpoint? Or is that deep upside?

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

Some of it has, but there could be some upside there.

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

Got it. Okay.

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

Yes. So actually, Quinn, I believe that we are at the $1 billion TAM, or SAM, now. So we've expanded from what we said at the IPO 2 years ago in November from $600 million to, I think, up by $400 million. When can we get to that? I think as quickly as we can. To be little -- trying to be a little smart about it.

One of the observations is that in the networking telecommunications market, the O-RAN, the mid-haul, the backhaul, the short haul, the long haul, the data center, if you put that all together, as I've said before, there are significant number of opportunities that, in my view, alone in the next 2 years would probably be worth about $1 billion, and we have that front and center in our sites. So the more products we can get into that market, the better off we're going to be.

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**Operator**

Your next question comes from the line of Suji Desilva from ROTH Capital.

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

Rajesh, Art, congrats on the strong continued momentum here. I want to try to put together some comments in the prepared remarks. Correct me if I heard them wrong, but I think you said your second largest customer was going to be an auto customer in the next few quarters you're going to grow to that. At the same time, I heard that you're bullish about data center relatively to auto. So I just to understand, as I look ahead to the mix maybe in 2 to 4 to 6 quarters relative to now, would it be a more even split across the 3? And by those comments, would data center be more dispersed across customers versus auto more concentrated?

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

Right. The data center will continue to be more dispersed. It's just a much more mature industry with many big players, and it'll probably be a bigger segment -- subsegment sooner. The automotive customer segment is going to grow. I just wanted to comment on the fact that I was surprised when I saw that our #2 size customer globally for anything was going to be an automotive customer. It was not what I would have said 2 years ago to you when we did the IPO.

So it's clearly a learning for SiTime. And of course, you want to do something with the learning. And what we're doing is we're running as fast as we can towards these opportunities, coming out with more products, more support and looking for more customers in this space. So this is one of those "watch this space" kind of thing. And to extend on it, it's probably a time-based data center gets there quicker, automotive gets there slightly behind, but I think they both continue to grow very, very strongly, very strongly for the years to come.

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

Rajesh, is it too much to think that by the end of '22, we could have an even split across the 3 segments more than the consumer weighted now?

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

No. I think consumer -- we're doing well in consumer. And we have high precision products in consumer as well granted they are low ASP. They are sub-$1 ASPs, but I think they do really well. And it really works for us to have a balance. I mean remember, SiTime is one of the most diversified product companies, customer companies, segment companies, ASPs, diversification. So, I'd like to keep it that way. It gives us multiple legs to a stool instead of just a few.

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

Yes, and I certainly want to undervalue consumer traction. And then just one other question. It would help me and perhaps the investors if you could just kind of dig down to what the 2 or 3 reasons are you're gaining content in auto and in data center, if they're the same in both. And just anything -- that's kind of one click down to understand why you're gaining traction there.

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

Yes. I mean what happens is that it comes down to high performance. And the data center we know and -- is looking at higher performance anyway. Whether it is a large hyperscaler, they might have a use for one of our products on the motherboard. They also may have a switch. These are 2 different applications in a data center system. But combined, they seem to solve the problems that they are facing in the business.

Similarly, we might get it designed in on an optical module. We might get designed in at a host board adapter. We might get designed in on a smart NIC all at one customer. So. I think these customers are looking at the Swiss Army knife of solutions at the high end that we provide, whether it's differential, whether it's Super-TCXO, whether it's OCXO, whether it's small-sized standard XO. And they're saying, wait, why don't I want to use this, and they are using it. So, I think that's really what's happening. At the same time, the performance levels in these is increasing. And as you know, that's where we play. The higher the performance, higher the need for connectivity, the more we win.

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**Operator**

I am showing no further questions at this time. I would now like to turn the conference back to the management.

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

Well, on that note, we'd like to thank everybody for joining us today. I think that concludes our conference call. Thank you very much, and have a great afternoon. Thank you all.

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**Operator**

This concludes today's conference call. Thank you all for your participation. You may now disconnect.

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