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PRESENTATION

Operator

Good afternoon, and welcome to SiTime's third-quarter 2024 financial results conference call. (Operator Instructions) As a reminder, this conference call is being recorded today, Wednesday, November 6, 2024.

I would now like to turn the conference over to your first speaker today, Brett Perry of Shelton Group Investor Relations. Brett, please go ahead.

Brett Perry - *Shelton Group - Vice President, Investor Relations*

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

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

In light of these risks, uncertainties, and assumptions, the forward-looking events discussed during this call may not occur, and actual results could differ materially and adversely from those anticipated or implied. Neither the company nor any person assumes responsibility for the accuracy and completeness of 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 statements to actual results or to changes in the company's expectations. For more detailed information on risks associated with the business, we refer you to the risk factors described in the 10-K filed on February 26, 2024, as well as the company's subsequent filings with the SEC.

During the call, we will refer to certain non-GAAP financial measures, which are considered to be an important measure of company's performance. These non-GAAP measures -- financial measures are provided in addition to and not as a substitute for or superior to measures of financial performance prepared in accordance with US GAAP. This GAAP to non-GAAP reconciliation includes stock-based compensation expense, amortization of acquired intangibles, and acquisition-related expenses, which include transaction and certain other cash costs associated with business acquisition as well as changes in the estimated fair value of contingent consideration and earn-out liabilities. Please refer to the company's press release issued earlier today for a detailed reconciliation between GAAP and non-GAAP 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 Corp - Chairman of the Board, President, Chief Executive Officer*

Thank you, Brett. Good afternoon. I'd like to welcome new as well as existing investors to SiTime's Q3 2024 earnings call. SiTime is the leader in a dynamic new semiconductor category that we call “Precision Timing,” which is the heartbeat of modern electronics. Whether it is in AI data centers, networking infrastructure, automated vehicles, personal mobility, or IoT, SiTime's Precision Timing delivers better performance and reliability. This Precision Timing uses semiconductor technology to reimagine time and transform the $10 billion timing market.

Our third quarter results demonstrate broad strength across financial metrics, customer segments, and regions. Revenue for the quarter grew by 62% to $57.7 million, and net income increased to 17% of revenue. Each of our customer segments and regions continued at least double-digit growth with CED, or communications, enterprise, and data center, Greater China and EMEA, all growing at triple-digits. Bookings for the fourth quarter are strong, and we expect Q4 to grow sequentially as previously forecasted.

Looking back, November 2024 marks our fifth year as a public company. At the time of our IPO, SiTime made a commitment to building high-value timing products for high-growth applications and markets and we have significantly delivered. We have built high-growth, high-margin businesses with a diversity of revenue, customers, and applications. Since markets grow at different rates and on different timelines, we believe that this diversity benefits SiTime and makes us a unique semiconductor company.

Our Comms-Enterprise-Datacenter, or CED, business demonstrates the value of our products. In both Q2 and Q3 2024, CED has been a major driver of our growth, driven by Cloud Service Provider investments in AI infrastructure. CED revenue grew over 200% year-over-year in Q3, and, for FY24, it will more than double. Looking forward into 2025, we believe that the AI market will continue to grow as newer generations of AI servers and networking equipment are rolled out. We expect CED to continue to lead SiTime growth next year.

In AI data center infrastructure, SiTime's products are solving difficult timing problems in applications such as top of the rack switches and optical modules. Additionally, CSPs, or cloud service providers, are investing in improving bandwidth and GPU utilization in the datacenter, which we believe results in more use of Precision Timing solutions with higher dollar content per application. SiTime's precision timing plays in high-speed connectivity applications such as Active Electrical Cables. We provide high-performance that is virtually immune to noise, in a very small form factor, which is quite valuable in these cases.

Another application is the direct connectivity between GPUs through a very fast dedicated switch, which improves GPU utilization rates with faster parallel processing of the AI workloads. Our clock generators acquired from Aura play a key role here as well, delivering multiple high-performance clocks from a single integrated device. In sum, we are in a leadership position in AI with Precision Timing and expect to grow our dollar content as this market grows.

Another macro trend is in building a more precise Global Navigation Satellite System, or GNSS, which is resilient to jamming and spoofing. Such a system has use cases in Defense and Aerospace and extends to Industrial, Automotive, and Mobile-IoT-Consumer.

In automotive, ADAS Level 2, Level 3 and 4, as well as robotaxis need such an enhanced GNSS to operate optimally. Such a GNSS will depend upon Precision Timing, and we are engaged with key players in multiple markets.

In autonomous and ADAS vehicles, we are now also offering FailSafe technology where the single device integrates resonators, oscillators, clocking, and advanced safety mechanisms for timing. This integration accelerates functional safety development and simplifies system architecture. We have multiple design wins with key electric vehicle companies and expect to begin shipments in volume quantities in 2025.

In summary, our strategy is working as intended and delivering results. I'm confident of our success, now and in the future.

I now want to turn the call over to Beth, our CFO, to discuss our financial results in more detail.

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

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

We are pleased with our third quarter financial results as we continue to execute our financial model. We drove strong, sequential, and year-over-year revenue growth, expanding non-GAAP operating profit and earnings per share over twice as fast as revenue, while continuing to invest in our leading product road map. Our financial performance this quarter demonstrates our ability to successfully invest in our business while delivering strong financial results.

Third quarter revenue was $57.7 million, up 62% year-on-year, driven by increased volumes and favorable product mix.

Looking at growth by market, sales into our Communications, Enterprise, and Datacenter market were $19.7 million or 34% of sales, up 233% year-on-year. Sales into the Automotive, Industrial, and Aerospace market were $17.7 million or 31% of sales, increasing 51% year-on-year. And sales into the mobile, IoT, and consumer market were $20.3 million or 35% of sales, up 14% year-on-year, with sales to our largest customer totaling $13.1 million or 23% of sales.

Non-GAAP gross margins were 58.1%, up 40 basis points sequentially, driven primarily by improved manufacturing absorption from higher volumes.

Total non-GAAP operating expenses for the quarter were $29.5 million, with R&D expense of $17.1 million and SG&A expense of $12.4 million. Operating expenses were lower than expected, primarily related to the shift of R&D expense from Q3 to Q4.

Q3 marked the return to operating profitability with non-GAAP operating profit of $4 million, a significant improvement of $9.7 million versus the prior year and representing 75% flow-through of gross profit dollars. Third quarter non-GAAP net income was $9.6 million, representing 17% of revenue or $0.40 per share.

Turning to the balance sheet. Accounts receivable was $30.2 million with DSOs of 47 days. Inventory at the end of the quarter was $71.9 million and accounts payable was $17.9 million -- sorry, inventory at the end of the quarter was $71.9 million and accounts payable was $17.9 million. During the quarter, we generated $8.2 million in cash from operations, invested $15 million in capital purchases, and paid $12.9 million to Aura as part of the transaction we announced last year. We ended the quarter with $435 million in cash, cash equivalents, and short-term investments.

Let me now review our outlook for the December quarter. In Q4, we expect revenue of $63 million to $65 million, non-GAAP gross margins to be in the range of 58% to 58.5%, non-GAAP operating expenses of $31 million to $31.5 million, interest income of approximately $4.5 million, and diluted outstanding shares of approximately 24.4 million shares. As a result, we expect non-GAAP EPS to be in the range of $0.39 to $0.45 per share.

In closing, we are pleased with our strong results and remain focused on driving revenue and profit growth. Our product portfolio continues to expand with differentiated products that address large and growing markets, and our customers are clearly recognizing our value proposition. All in all, we are executing our strategy, and our strategy is working.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Suji Desilva, Roth Capital.

Suji Desilva - *Roth MKM - Analyst*

Hi, Rajesh. Hi, Beth. Congrats on the progress here. Maybe you can talk about the data center market, Rajesh, the content here. Curious, optical top-of-rack switch versus you expanding into AECs. And it sounds like you have some content in the AI server or somewhere in the rack, other places, and you can elaborate on that maybe. What's the mix of those today? And what's the mix of those content positions maybe one to two years out, maybe some of those growth opportunities?

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

Yeah. Thank you for that. We see that all of these will continue to grow over time. The tricky part is forecasting what -- how they're configured. But in general, we're talking about in the next few years, seeing that server content grows quite substantially. Where we see particularly large content growth is in the switches and some of the CPU servers, as well as the pluggables as well. So I think we see growth all across the market depending upon the configuration of these systems.

Suji Desilva - *Roth MKM - Analyst*

Okay. And maybe just a follow-up there. I know you've started off with strong traction in the optical pluggables. And I'm wondering, is there a multiplier of content to think about for a server switch or CPU server versus a pluggable? Or are they similar content-wise for you, opportunity?

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

The pluggable is probably the least in dollar amount, but the switches, the servers, the GPUs, of course, they all go up quite a bit. We do have Super NIC cards, which are used for compute, those that are used for storage. So, depending upon, again, it's a pretty complicated architecture, but those are all important places for SiTime's sales and revenue.

Suji Desilva - *Roth MKM - Analyst*

Great. Sounds like a great opportunity. I'll pass it along. Thanks, Rajesh.

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

Yeah. Thank you.

Operator

Quinn Bolton, Needham & Company.

Quinn Bolton - *Needham & Company Inc. - Analyst*

Hey, guys. Congratulations on the nice results and outlook. I wanted to follow up on Suji's question. Rajesh, you, I think, perhaps mentioned GPU to GPU networks or others may know them as the scale-up networks in AI being particularly content-rich for your TCXOs. Wondering if you could just dive a little deeper into what the content could be in those scale-up networks. If you look at NVIDIA's latest generation NVL72 rack, nine of the 27 trays in that rack are dedicated to switching, and there's a lot of content to be had there, and it sounds like those switch trays could potentially use multiple TCXOs from the company. So just wondering if you could kind of expand on the use cases. And are these scale-up networks specifically with NVIDIA? Or are you seeing scale-up opportunities with some of the hyperscalers that are developing their own ASICs? Thanks.

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

Yeah. So, without naming customers' names, we have not made as many inroads into the hyperscalers. We have in some, but not in all. So, I think we are mostly seeing this in the people who are in the business of CPUs and GPUs.

But I basically believe that we are now talking -- we started with sub-$100, say, a couple of years ago. And now we're rack, but now fully populated racks are hundreds of dollars, quite high. Slightly less populated racks are still hundreds of dollars. So, it's whether we're talking about a high hundreds of dollars, a little bit more middle of the road, whether we're talking about GPU trays or NIC cards for storage compute or switches or top-of-the-rack switches, SiTime plays in all of them.

Additionally, of course, we continue to play across a large number of OEMs in the pluggable modules as well as in the AECs that are connecting and some of the AEC companies are doing quite well. I know you cover them. So, I think it's all part of a whole program, and that's why we could have the kind of growth, 200% that we saw year-on-year -- I mean, quarter-on-quarter.

Quinn Bolton - *Needham & Company Inc. - Analyst*

And Rajesh, just to confirm that, that high hundreds of dollars per rack, that's across all applications that would include AEC, pluggables, top-of-rack switches, scale-up switches, cheaper NIC cards, like everything you do.

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

Yeah.

Quinn Bolton - *Needham & Company Inc. - Analyst*

Okay. Got it.

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

I'm aggregating all of that because, yeah, it's a little bit tricky. And I don't think it should be that specific. So --

Quinn Bolton - *Needham & Company Inc. - Analyst*

Understand the customer sensitivities there. I guess the next question, CED was up over 200% in the quarter. It will double in '24 versus '23. I know you're not giving guidance for '25 yet, but what kind of growth rate do you expect in 2025 out of CED? I think you said in the prepared comments that CED would again lead the growth. So I assume if you're targeting 30% overall for the company, that CED is probably going to be well in excess of 30% next year. Is that kind of the right framework to be thinking about for 2025?

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

Yeah. So, as you recall, Quinn, several quarters ago, we took the unusual step of forecasting that we would grow by, give, or take, 30%, and looks like we're on target to do that for this year. We also took the sort of unusual step a quarter ago of saying that this growth of approximately 30% would carry on into the coming year and the year beyond. We still maintain that.

I think it's fair to say that given the diversity of our revenue, which is the strength of the company, there's always something that's growing at more than corporate growth rate. And I think in this case, CED qualifies for that because there's also something on the other side, which is not growing at the corporate growth rate. So, I think it balances itself out nicely so that we can deliver the promised 30%.

Quinn Bolton - *Needham & Company Inc. - Analyst*

Perfect. Thank you. I'll get back in queue.

Operator

Melissa Fairbanks, Raymond James & Associates.

Melissa Fairbanks - *Raymond James - Analyst*

Hi, guys. Yeah, I'll add my congratulations. I have a couple of questions for Beth actually to start. I'm surprised, normally, this is the first question that gets asked. Are you able to give us any sort of specificity on segment guidance for the fourth quarter? Obviously, CED is going to lead the growth, but any kind of color that you can give us on the other segments?

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

Sure. So, as we look at the segments, again, we expect growth in CED to lead the way. I think if you look at our consumer IoT mobile segment, that as well, right? We've got holiday season that should show good growth as well. And then, as we look at the auto, industrial, aerospace, we expect that to continue to grow as well. That's had some strong performance this year. But I'd say, again, growing across the board, but CED definitely leading the way.

Melissa Fairbanks - *Raymond James - Analyst*

Okay. Great. And then, as a follow-up, maybe I know this is like way less boring or way more boring than talking about CED, but on the OpEx line, I understand that some of the R&D got pushed to the December quarter. I think in our prior conversations, maybe we talked about going forward, maybe a couple of million dollars a year in OpEx growth, and then that drives a lot of leverage in the model. What are you thinking now that you've got all of these new opportunities? Should we expect a greater increase in OpEx? Or how should we be modeling OpEx going forward?

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

So we look at Q4, I'm expecting OpEx to be kind of $31 million to $31.5 million for the quarter. So that's for Q4. And then, I think what you're asking is looking forward into 2025 and how to think about that. So, if you annualize that number, you get to $124 million, $125 million-ish as kind of a baseline.

And then I think, again, we'll grow a bit from there. As we've been talking about, I expect that revenue to grow much, much faster than OpEx, but we do want to be investing in the business. We want to be investing in R&D. We want to be investing in go-to-market. So, for those key growth areas, and we see a good ROI on investment, whether it's people or programs, we're going to make those investments. But again, as I said, I expect revenue to grow much faster than OpEx.

Melissa Fairbanks - *Raymond James - Analyst*

Okay. Great. Thanks so much, Beth. Thanks so much, Rajesh.

Operator

(Operator Instructions) Tore Svanberg, Stifel.

Jeremy Kwan - *Stifel Nicolaus and Company, Incorporated - Analyst*

Yes. Good afternoon. This is Jeremy on for Tore. And let me add my congratulations to a very strong quarter and outlook. I wanted to dig a little bit more deeply into the automotive segment. I know software-defined vehicles is something that's kind of been coming on pretty strong lately in the industry. I was wondering if you could give us more insight into your time and content and how it plays into the opportunity there? And how does that compare to legacy or more traditional vehicles in terms of your potential content and potential TAM, that would be great. Thank you.

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

Yeah. So, starting with the SAM, we probably have something like about $400 million to $500 million SAM in the automotive market, which is up substantially from the time when we went public when it was almost negligible. Most of the business that we have comes from the more innovative car companies, which tend to be electric vehicles, although it's not limited to that. We're not connected to that, but many of them are significantly EVs. So, with that in mind, we do rather well in China, where, as you know, there's a lot of automated driving and new car companies that have really ramped up volumes. We have done well in the United States with those electric car companies that have done well.

And in terms of use case, the use case is mostly centered around automated driving, whether it is the full ADAS at Level 2 or Level 2.5 or design wins at Level 3 and Level 4 but also in the cameras or the sensors or the radar, the LiDAR and the GPS that connects some of these to positioning. So, it's really mostly in that ecosystem, although I will say that we are also in infotainment, we are also in some of the Ethernet cabling and so on. So, it's a pretty diverse use case, but it's mostly centered around automated driving. And as I mentioned, with our new failsafe technology, which is getting rolled out right now, we are likely to be used in other cars that want to increase the safety of their operation.

Jeremy Kwan - *Stifel Nicolaus and Company, Incorporated - Analyst*

Great. Thank you for that color. I was wondering if you could also step back a little bit and look at the precision timing market versus quartz. If you can give us an update there, whether it's -- can you talk about your penetration rate maybe for new applications or emerging applications or even if you can segment it like high performance versus areas that you're not targeting? How are you seeing your uptake in precision timing versus quartz and things like how programmability impacts that decision for customers? Thank you.

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

Right. So, our total market TAM is $10 billion, and that is divided into oscillators, which is $4 billion; clocks, which is a couple of billion, so that's $6 billion plus, the remaining is the resonators, even though we don't have any resonator products shipping, but we do have products in the other two categories. Our SAM, or our market that we serve, is a little bit less than $3 billion, but let's say it's $3 billion. And our revenue, as you know, is in the range of a little bit lower than $200 million as forecast by many of you. So really our penetration, our precision timing market is in that $3 billion category, and SiTime's penetration in that is significantly -- has a lot of room for growth from $200 million all the way up.

The real issue here in terms of what makes up that $3 billion is, as we've said before, right now, data centers are doing very well. Enterprise technologies and communications are very important. I think they probably take over about $1 billion of that. We also have a significantly large consumer mobile IoT business, and that is a very large portion of that as well, whatever consumer devices you can think of that we can go to. The rest of it is around military, aerospace, defense, industrial, medical, and so on. So, we -- and as mentioned, we are probably around $0.5 billion for automotive.

So, I think it all adds up to about $3 billion. And we have about 300 different applications inside that $3 billion SAM or served market. So it's a very diverse business, which is by design because we think that that adds significant strength to the company at the same time while we get a growth of 30% annually.

Jeremy Kwan - *Stifel Nicolaus and Company, Incorporated - Analyst*

Great. Thank you.

Operator

Quinn Bolton, Needham & Company.

Quinn Bolton - *Needham & Company Inc. - Analyst*

A quick follow-up for Beth. Beth, I think last quarter, you had mentioned the gross margin was sort of weighed down by some new investments in tooling. Obviously, you guys have done a really nice job here in the near term, delivering higher-than-expected revenue. Just kind of wondering if you might be able to give us your latest thoughts on gross margin, what the trajectory might look like beyond the December quarter into March? Would you see a seasonal downtick as revenue may decline seasonally? And then, any thoughts on when you can get back to that 60% or higher gross margin target? Thank you.

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

Sure, Quinn. Let me talk a little bit about our gross margin. As you said, we did see some good improvement sequentially, 40 basis points. And I'd say, we're on track with where we expected to be as we ramp these new products and bring them in production. Long term, we still expect to be north of 60%. And in fact, if we continue on track as we expect, we would be getting back to kind of that 60% mark by probably the second half of 2025 as we get these products into production and really ramping there.

So again, I think we're on track with where we expected to be. We've seen nice improvement here sequentially. To your point, we typically see a seasonal decline Q4 to Q1. I think the average is roughly 20% seasonal decline in revenue. And so that's a little bit of a headwind there just for the March quarter. But long-term, even into 2025, I think we're on track with where we want to be.

Quinn Bolton - *Needham & Company Inc. - Analyst*

Perfect. Thank you.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research - Analyst*

Yeah. Thank you. Good evening. I wonder if you could talk a little bit about your penetration or your attempt to penetrate the clock market in terms of the timing of that? And what sort of magnitude of benefit do you expect as you start to penetrate that? And is it really a function of just the pace of product development there? How quickly can you get products out into the market for that segment?

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

Yeah. Thanks, Chris. Actually, it is -- the pace of this is predicated by the design win and the deployment of the products. So because of the Aura acquisition, we now have a significant number of the products that we want. There's still some in the pipeline that are getting rolled out, but most of the products are already out and getting design wins. So, what is predicating that rollout is the design win, which takes anywhere from nine months because a lot of these go into CED markets, industrial markets, automotive markets, which have about a 9-month to 12-month design win and then another equal number of months for the rollout of the product in volume, so call it two years.

So because of that, we think we are very much on target with both our organic growth products in clocking, like the Chorus product that we launched recently, but also with the Aura-based products, such that our revenue over the coming years -- coming few years, not a long time, we expect to be from clocking to reach about $100 million. And we are well on that trajectory even though the revenue from clocking is still relatively small this year and, in fact, next year as well.

Chris Caso - *Wolfe Research - Analyst*

That's helpful. Thank you. As a follow-up, one for you, Beth. And I guess, you've been there a bit of a while now. Luckily, it appears that the market has now stabilized. So, we have a better idea of what we're dealing with here. What's your view of the margin structure for the company and kind of where you'd like to see it? And how should we think of not just for the next few quarters, but a little longer out, we should think about OpEx growth relative to revenue growth? And what sort of operating leverage we should see as the revenue grows?

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

Thanks, Chris. So, as I talked a little bit about, we haven't really, again, given guidance for '25. But as I think about some thoughts on the operating model and how we're thinking about it, as I've been saying, we are growing revenue. And given kind of our recent trajectory and the OpEx that we had coming into 2024, I think I still think that we can grow revenue much faster than OpEx. And so we've got good or great operating leverage in the model. This quarter, you saw that with a 75% flow-through of gross profit to the bottom line.

And so, while we do want to invest in OpEx, as I'm telling Melissa, we do want to make those strategic investments where we see good ROI. I do expect us to continue to grow revenue much quicker than OpEx, at least '25. And we'll see, again, at some point, we'll make more investments. But right now, I expect to see a lot of flow-through and operating leverage in the model.

Chris Caso - *Wolfe Research - Analyst*

That's great. Thank you.

Operator

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

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

Well, thank you very much. We are very glad that we've returned to a growth rate, and it's good to be here, and we look forward to talking to you in further detail as the quarters roll on. Thank you very much.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.