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PRESENTATION

Operator

Good afternoon, and welcome to the SiTime's Third Quarter 2020 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, Wednesday, November 4, 2020.

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

Leanne K. Sievers - *Shelton Group - President*

Good afternoon, and welcome to SiTime's Third Quarter 2020 Financial Results Conference Call. On the call from SiTime are Rajesh Vashist, Chief Executive Officer; and Art Chadwick, Chief Financial Officer.

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

In light of these risks, uncertainties and assumptions, the forward-looking events discussed during 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 these statements to actual results or to changes in the company's expectations. For more detailed information on risks associated with our business, we refer you to the risk factors described in our 10-K filed on March 2, 2020, as well as the company's subsequent filings with the SEC.

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

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

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

Thank you, Leanne. Good afternoon. We appreciate you joining us today and hope that all of you and your families are staying safe and healthy during these unique times. Even with the challenging macro backdrop, SiTime continued to execute, demonstrated by a record quarterly revenue of $32.7 million for third quarter 2020, which was above our updated guidance range of $31 million to $32 million.

Our results demonstrate the diversity of our end-market segments, our customer base and the exceptional dedication of the SiTime team, all of which have benefited SiTime during the current environment. During this third quarter, revenue grew 52% sequentially compared to our second quarter 2020 revenues. We anticipate that continued strength in the fourth quarter will allow for SiTime to set another quarterly revenue record, and Art's going to discuss our third quarter financials and fourth quarter outlook later in the call.

Now SiTime's fabulous model and multi-source strategy continue to provide a competitive advantage in this market, while at the same time, providing added assurance of quality and reliability to our customers. In contrast, we believe that the quartz industrial infrastructure has several points of failure, which can cause supply disruptions, some of which we have heard about through recent industry commentary.

Additionally, within the timing market, responsiveness is becoming the key theme, and we believe that many competitors and cohorts may not be set up to support industry needs and requirements for the future. In infrastructure applications our speed of response to environmental disruptors, such as temperature change, minimizes the system-level impact.

In Mobile IoT, our kilohertz products helped reduce radio power by turning it on and off more quickly and precisely, something that's unique to SiTime. On the supply side, our programmability continues to enable the flexibility, speed and delivery required by our customers.

With the recent introduction of our ApexMEMS family of resonator products, SiTime now offers all 3 categories of timing products, which are the oscillators, the clocks and the resonators.

As of the third quarter, we have cumulatively shipped almost 2 billion oscillators, all of them with an embedded MEMS resonator. Our combined knowledge of the MEMS, the analog chips, the package and the materials is unique to the industry and offers a system-level understanding for our resonator customers as well.

Now we know that the manufacturing MEMS products in high volume is not easy. MEMS product leaders in other markets, non-timing markets, maintain their leadership position because they invested early, focused on developed innovative solutions at a rapid pace as well. And we believe today that SiTime is in a similar position for the timing market as we continue to build upon this market leadership.

Our ApexMEMS Resonators are ideally suited for high-volume, space-constrained Mobile and IoT applications, such as Bluetooth, hearables, high-speed connectivity interfaces, asset tracking and microcontrollers. In addition to these applications, other system-on-our chip vendors can use our ApexMEMS resonators that would be co-packaged with their chips, just like we do in our oscillators.

Given our broad knowledge of timing market solutions across all 3 categories, we believe our system timing -- our system-level timing solutions save customer design time, increase their end products performance and reliability while also reducing their overall board footprint, creating value.

Moving to 5G. In 5G, the opportunities available to SiTime continue to drive the company's expansion into the Communications market. Our products continue to see solid design traction in 5G applications at Tier 1 manufacturers of Telecommunication equipment. In addition, we had previously mentioned ORAN, which is Open Radio Access Networks, and we continue to see significant interest in ORAN hardware solutions, that are being developed for greenfield operators as well as the traditional carriers.

ORAN is getting traction because it gives operators best-in-class equipment and performance while driving better deployment economics. And the need for successful interoperability of equipment from different suppliers is a driving factor for SiTime's success. We're getting significant traction with ORAN customers worldwide across the entire radio network, including RRUs, small cells and distributed units. In the area of 5G optical transport, where we are engaged with 100- to 800-G optical and SoC suppliers with our SiT9501 products, we find that we are able to offer unique value with high performance in the smallest form factor.

In conclusion, SiTime is uniquely positioned to disrupt the market as a first company that continues to provide system-level timing solution. That said, this is only the first step of a multiyear strategy to extend our market leadership in timing solution. We remain a results-driven company with a culture that encourages creativity, leadership and a strong commitment to our customers, which continues to be reflected in our recent quarterly trends.

I'd now like to turn the call over to Art, as we'll discuss -- as he will discuss in more detail our third quarter results and our outlook for the fourth quarter. Art?

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

Thanks, Rajesh, and good afternoon, everyone. We are very pleased to be holding our fourth financial results conference call as a public company. And during my review today, I'll discuss third quarter 2020 financial results. And we'll provide guidance for the fourth quarter. I'll focus my discussion on non-GAAP financial results and refer you to today's press release for a detailed description of our GAAP results as well as a reconciliation of GAAP to non-GAAP results, which excludes stock-based compensation and related payroll tax expense.

So first of all, Q3 was really an excellent quarter for us. We had strong revenue growth, significant gross margin expansion and very positive non-GAAP net income. As you know, at the end of August, we increased our revenue guidance for the quarter by more than 10%, and I'm happy to report that actual results exceeded the high end of that revised guidance. Revenue for the quarter was $32.7 million, up 52% sequentially and up 29% over the same quarter a year ago.

To provide some color on end markets, I'll report sales by market group as I have in the past. The first is Mobile, IoT and Consumer, which consists primarily of sales into mobile phones, wearable devices and consumer products. This was the segment most impacted by the global slowdown in Q2, but it came back strong in Q3. Sales were $20.9 million or 64% of total sales, up 105% sequentially and up 19% over the same quarter a year ago.

The second is Industrial, Automotive and Aerospace, which goes into industrial, automotive, aerospace, military applications and includes broad-based sales. Sales were $6.4 million or 20% of sales, up 5% sequentially and up 23% over the same quarter a year ago.

The third is Communications and Enterprise, which consists of wireless infrastructure, including 5G, data center and networking. This was the fastest-growing segment over the same quarter last year. Sales were $5.4 million or 16% of sales, up 3% sequentially and up 103% year-over-year. We had just one end customer where sales exceeded 10%, and sales to that customer were 45% of total sales.

We have had a number of initiatives within the company to expand gross margins, and those initiatives are paying off. Non-GAAP gross margins during the quarter were 52.1%, up 530 basis points over Q2. Non-GAAP operating expenses were $12.5 million, up 5% sequentially, comprised of $7.0 million in R&D and $5.5 million in SG&A expense.

Net interest expense was $0.1 million. And this generated non-GAAP net income of $4.4 million or $0.23 per share and that's compared to a loss in the prior quarter of $2.2 million or $0.14 a share.

Stock-based compensation expense and related payroll taxes were $5.1 million. This was higher than the $3.4 million in Q2 due to the higher stock price, some new higher stock grants and the establishment of an executive performance stock bonus plan.

Trade receivables were $17.2 million. That was up from $13.0 million in Q2 due to the higher revenue, but DSOs decreased from 58 days in Q2 to just 49 days in Q3. Inventory was $15.2 million, up slightly from $14.8 million in Q2. We generated $4.2 million in cash from operations and used $2.5 million for the purchase of assets.

We had $35 million in bank debt going into the quarter, but we paid this off entirely and finished the quarter with no bank debt. We then ended the quarter with $69.2 million in cash and equivalents.

I'd now like to provide some guidance for the fourth quarter of 2020. We expect Q4 to be another great quarter, with continued sequential revenue growth, gross margin expansion, and increasing net income. We expect fourth quarter revenue will be up 10% to 15% sequentially. At the midpoint, this would put revenue at about $36.8 million or 30% higher than the same quarter last year. We expect continued gross margin expansion, with non-GAAP gross margins increasing to approximately 53%, plus or minus 1 point.

Operating expenses are expected to increase between 8% and 10% sequentially, which, at the midpoint, would be approximately $13.7 million. We will not incur any interest expense since we no longer have any bank debt. Income taxes will be nominal and less than $50,000 for the quarter. The basic share count in Q4 will be approximately 17.0 million shares. In addition, the dilutive impact of employee RSUs will add approximately 2.2 million shares, taking the total diluted share count used for our EPS calculation to approximately 19.2 million shares.

Stock-based compensation expense will be approximately $5.5 million, up from Q3 due to the higher stock price and a few new hire grants. So based on the guidance just given, we expect fourth quarter non-GAAP EPS will be between $0.28 and $0.32 per share.

So in summary, we have an exceptional workforce that is performing extremely well working from home. We have truly differentiated products that address large and growing markets. We have a number of new products in the pipeline, an enviable list of Tier 1 customers, a strong balance sheet, and we're looking forward to a very strong Q4.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have your first question from Blayne Curtis from Barclays.

Thomas James O'Malley - *Barclays Bank PLC, Research Division - Research Analyst*

This is Tom O'Malley on for Blayne Curtis. Congrats on the really nice results. My first question was around the improvement throughout the quarter. Obviously, you updated guidance in late August positively, and then you're now coming ahead of that range now. What most materially improved between now and then?

And then if you could look out into December, you're obviously guiding for some more expansion there. Could you give us a little color on segments between the 3? Where you're seeing that growth sequentially?

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

So from Q2 to Q3, as I mentioned, the most significant growth was in our mobile IoT group, right? Part of that is seasonality, but we just had real strength kind of across the board with our customers in that segment.

We also mentioned in our revised -- in our press release with our revised guidance in August that we had won a design win, a phone design win. That also contributed. We're not going to report the phone revenue specifically, one, because we're not allowed to. But I will provide some color to that.

When we increased our guidance in August, about half of that increase was related to that new phone design win. And the balance was, obviously, then strength in non-phone. So that was kind of what happened in the third quarter.

In the fourth quarter, we're seeing very strong revenue growth. As I mentioned, our guidance is that revenue will be up 10% to 15%. I'll mention the phone again, not specifically, but phone revenue will probably account for about 1/3 of that sequential improvement. And therefore, non-phone, basically, accounts for the balance of that. But we're expecting growth in all of our market segments going from Q3 to Q4.

Thomas James O'Malley - *Barclays Bank PLC, Research Division - Research Analyst*

Great. That's super helpful. And then my follow-up is just really around the largest customer for you guys. That obviously stepped up materially into September. Along with that, margins clearly stepped up as well. Can you talk about what's driving that better margin performance?

Clearly, you're seeing some accretive gross margin dollars, as that customer steps up. But can you talk to your other segments as well? Is there a material part of that uptick that's also coming from the comms enterprise and the auto industrial space as well as those products move a little down?

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

Absolutely. Absolutely. We've talked for a long time about the gross margin drivers in our business. Our newer products generally are higher ASP and higher performance. As those newer products become a larger percentage of our sales, that drives higher blended gross margins. That's one.

Two, we're taking more of our sales direct, that cuts out the distributor. That improves our gross margins. We've made a lot of progress in reducing our product material cost. That would be wafer costs. That improves gross margins. Our ops group has done a great job at improving sort and test yields and package costs. That improves gross margins.

Volume helps us. Our manufacturing overhead, even though we're fabless, we have a certain amount of manufacturing overhead. That's relatively fixed. So as the volume goes up, that manufacturing overhead as a percent of sales decreases. That helps gross margins.

And so we've been working on this now for a while. And we saw very significant gross margin expansion from Q2 to Q3. As I mentioned, gross margins increased 530 basis points from Q2 to Q3. And I've guided for at least another point of improvement, plus or minus, going from Q3 to Q4.

Operator

We have your next question from Tore Svanberg from Stifel.

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

And congratulations on the record results. Rajesh, you called out some challenges in the quartz industry, your competitors. Could you maybe elaborate a little bit more on that? And what does that really mean for sort of new engagements and new design wins for SiTime?

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

Yes. I think we talked a little bit about it last time. Basically, the quartz industry, as we know, has done a stellar job in the last 70 years of providing product to everybody in the electronics world.

But I think that it is still a batch process. It is a fab process. It's a factory process. Everybody has to invest in factories. And these factories are purpose-made. So they can't be used for anything else. They don't have the scale, and they don't have the flexibility that a fabless company like SiTime, which uses semiconductors, can get.

I mean, as a reminder, when we build our MEMS resonators, we can -- 1 million -- sorry, 10,000 wafers should give us about 1 billion units. And these are 180-nanometer technology wafers, so not really that difficult to get.

So it's fundamentally, their supply chain is batch made, and I think it has these issues with it. There were some reports of some stumbles in fabs in the Asian markets. And I think we saw a spike in demand coming. That didn't impact Q3, by the way. I'm just talking that -- we saw spikes in people because people get nervous when that happens.

And this is not the first time. Ten years ago, there was a big a big problem with ceramic packaging. As you know, all quartz with products where the oscillators or resonators are quartz packaged because they're fragile, and they want to keep a very strong packaging. Those quartz packaging -- ceramic packages come from only 2 people in the world. And sometimes there's a shortage.

So I think they have these multiple points of failure potentially, and that's what I was pointing out to. And yes, there have been some anecdotal events in the last few months. And in the continuing, we expect to see that.

It's just a reminder to our customers. It doesn't significantly change our revenue. But what it does is in the medium to longer term, it gets our customers a reminder that they're probably better off in moving to more stable supply chains.

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

Yes. That's great perspective. And as my follow-up, congratulations on entering the resonator market. And now obviously, you're covering entire gamut of the timing market. I know in the past, you've talked about targeting about a $10 billion TAM if you kind of combine all 3 subsegments. Could you update us where your SAM is now with your penetration with new products into the resonator market?

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

Yes. Our SAM is still around $1 billion to $1.2 billion. It might be a little bit higher depending on when we introduce products and so on. But it's certainly less than $2 billion. It's also mostly concentrated right now in oscillators. So while we do have resonators that have been introduced, while we do have analog clocking solutions that have been introduced, our ramp into that from a revenue point of view, we have already said expectations will be relatively slow.

I think our entry into these markets is significant for customers in the following way, in the way that they can then come and have conversations with us on all of these products. And not every customer wants to talk to us about everyone of them. Sometimes they want to talk to us only about resonators or oscillators or clocking, and then that becomes an entry point to talking about other products.

So it's -- from a TAM point of view, we're still pretty tiny, $1.5 billion in TAM out of $8 billion total market -- SAM -- at $1.5 billion SAM, whatever, $8 billion total TAM. And of course, SiTime's revenue is still pretty small in comparison at around $100 million. So we still -- even if we maintain and did not grow our SAM very much, we would still probably have a long way to go before we fill out those boots.

Operator

We have your next question from Quinn Bolton from Needham.

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

Congratulations on the nice results. I wanted to start off with the supply chain issues you talked about with quartz, I believe. That was one of the factors that led to the phone win that you announced last quarter. As you look forward, do you think that those quartz supply chain issues position you to potentially win additional SKUs, either with that customer or other large smartphone vendors?

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

I think that will have some impact, Quinn, but I don't think that it's forecastable. I think it's a general slow trend, and I've talked about this several times. It's a general slow trend. It's not at the point where it's gotten -- that snowball has become very big, but it's a trend that we see. And we've always said that people design us in for performance reasons as well as the supply chain. But overwhelmingly, they design us for performance reasons. Just to pick up, I would say, less than 15% of the time we get designed in for supply chain reasons.

But those supply chain reasons are important because when people look at their supply chains and see these perturbations that happen from time to time. And these -- by the way, these perturbations are not new. They've been going on for a long time, but customers did not have an alternative.

Now that they do have an alternative, it just becomes one more factor in their thinking, particularly when they're looking further out in time, particularly, say, for example, in automotive or mil aero or longer-term industrial products that have a slow ramp in multiple years, many of them start to think it might be prudent to do that. But I would still push on our performance benefits as being the primary reason for adoption.

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

Great. And the second question, I know, with the recent introduction of the APEX MEMS family, you're moving into the resonator market. Are you targeting select frequencies where -- high-volume frequencies with the initial resonators?

And I guess a related question, since you design this in silicon, do you need new mask sets every time the frequency changes in those resonator structures?

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

Yes. Yes, absolutely. We -- to answer your second question first, we do need a new mask set. But sometimes, those are very similar. They're not -- the design of the resonator is not very different. For example, between a 24 megahertz and a 26 megahertz, it's not going to be very different. However, between a 24 megahertz and a 76.8 megahertz, I think, it could be different.

But generally, the good news is that the resonator industry has worked around the quartz limitations in the past. And there are basically a handful, maybe two handfuls. So call it, a dozen "popular frequencies" that exist. And so I think that makes our task easier as we go from 1 frequency to the other. And you're absolutely right, we will not only target the most popular ones, but we'll target the ones where the frequency is one thing but where we bring the combination of size of resilience, of environmental stability and clearly of high-volume because these are low-priced products. They are sub-$0.20 products and price. And so obviously, the volume has to be -- opportunity has to be in the tens of millions for it to be interesting for us. Those are some of the key reasons to do it.

Now there's another thing that's going to happen over time, as frequencies of SOCs increase, the requirement for frequencies beyond, say, 75 megahertz increases. And that's an area where we think that quartz technology has difficulty getting to a high-volume, high-frequency, high-reliability, small-sized product. And that's where also we would shine and I'm thinking 2, 3, 4 years out, particularly in consumer products, perhaps in phone applications.

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

Got it. Great. And then just quickly for Art. You mentioned each of the segments would grow in the fourth quarter. Just wondering if you might be able to rank order if one is growing much, much faster than the others. Would you expect all of them to grow about the same rate?

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

Sure. Fair question. I don't think we wanted to get that detailed in our guidance. We do expect growth in each one of those segments. And I'll leave it at that, and we'll announce that segment growth in more detail when we actually announced the fourth quarter.

Operator

We have your next question from Suji Desilva from ROTH Capital.

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

Congratulations on the strong results. So perhaps for Art, with the increasing mobile content you have now, can you -- is this a framework for thinking about seasonality going forward, first half versus second half, first Q versus maybe before coming into this year?

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

Sure. Well, if you look at the seasonality in our business, and we do have seasonality, go back to last year 2019, right? Second half of the year, much stronger than the first half. People can go back and quantify that. We saw pretty much the same thing this year. The back half of this year, much stronger than the first half of this year. Q2, of course, was somewhat depressed in our mobile and IoT segment, because of the global slowdown and the fact that so many retail stores were closed.

And I think next year, it's going to be somewhat similar in terms of first half versus second half. Obviously, we expect year-over-year growth. Q1 next year should be nicely higher than Q1 of this year and Q2 over Q2 and 3 and 3 and 4 and 4. So we expect next year, we'll have good growth. We're not quantifying that at this point. But in terms of the seasonality, it's going to look, I think, similar to how it looked last year and this year.

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

Okay, Art. That's very helpful. And then perhaps on the infrastructure side, 5G wireless infrastructure, in particular. Are you having design wins kind of showing up every quarter that helped that to be a steady growth driver? Or might you ebb and flow with the 5G build out puts and takes?

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

Yes. I think it's a slow, steady drumbeat of products. Our products are also showing up. We talked about 9501 in the optical module business, that's clearly showing up. The ORAN that I referred to earlier, I think we have tens of design wins that showed up in the last few months.

Yes. So it's just a steady growth. And what I'm excited about is the breadth of where 5G touches. So again, as I've said, it's not just the digital unit or the RRU. It's the mid-haul, the backhaul, the microwave. It's in the servers. It's all -- it's in so much of the infrastructure. And as I've mentioned before, this is probably a 5, 7-year rollout and should be a very, and it very solid place for SiTime.

Operator

We have your next question from Alessandra Vecchi from William Blair.

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

Sure. Maybe a quick question for Art, just on operating expenses. Can you update us on the long-term operating model and how we should be thinking about it? You guys have really had done a tremendous job growing revenue the last couple of quarters with very little OpEx flow-through. So wondering how to think about it.

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

Yes. Great question. Well, revenue kind of got ahead of our expenses, so that's a good thing. Our kind of stated long-term goal is that we would grow OpEx at about half the rate of top line growth. So just for sake of mathematical example, if we were to grow revenue year-over-year by 20%, then I would expect OpEx to grow by about 10%. So that's kind of a generalized long-term goal.

If you look at the last couple of quarters, Q2, our revenue went up 52% sequentially, but only -- but OpEx only went up 5% sequentially. So we couldn't ramp expenses quite fast enough. My guide for Q4, we're guiding revenue up 10% to 15%, and I'm guiding OpEx up 8% to 10%. So that's a little more than half the top line rate, but that's because of a little bit of a catch-up because we were so low in terms of OpEx growth in Q2.

So does that kind of frame it for you?

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

Yes, that helps. And then...

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

I have a comment on that. And that comment is that a reminder that SiTime's an analog semiconductor company. And when you think of other semiconductor companies that are using 7-nanometer tape-outs, we're doing 180, 130, 65-nanometer tape-outs. When you think of other companies doing a bunch of software in OpEx and scaling that, we're not in the software business or not meaningfully in that.

On the other hand, the number of opportunities that are coming at us are coming pretty thick and fast. So we always would like to retain the ability to invest at a greater rate, within reason, to the model that was put out by Art.

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

Understood. That's helpful. And a helpful reminder on the geometries. And then just one more question. I believe last quarter, when you announced the Cascade product, the clock IC product, that you expected revenue to really be a 2021 event beginning and then probably ramping beyond that.

As we look at the stand-alone resonator products, should we be thinking about the time frame to revenue in a similar fashion? Or what are the puts and takes to there from a customer standpoint?

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

Yes. I would say that's even slower, Alex. I would say that because there's 2 kinds of design wins we would have. We would have stand-alone design wins, so we would go to OEMs and sell them resonators. That's one. And then the other one would be to go to SOC vendors, the ones we, sort of, for example, gave, and they would design it into their products.

Both of them, particularly the second one, take a long time. So the gestation period for that for meaningful revenue is easily twice as long as the clocking business. So yes -- so of course, there can be other times when it can happen very fast. But generally, that's a good rule of thumb.

Operator

We have your next question from Chris Caso from Raymond James.

Christopher Caso - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I guess, a question on margins. And I guess, as we go forward into next year, there's a lot of different factors with seasonality. Some of the different margin profiles of the different segments that are going to move in seasonality. Could you give us a sense of what should we expect as we go through the year, particularly in the first half of next year, as some of the consumer-related products typically would be seasonally weaker?

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

Yes. Great question. So our long-term goal for gross margins that we've talked about is getting gross margins somewhere closer to 60%. And that's going to take us 2 to 3 years, give or take.

So if you just kind of do that math, we're targeting gross margin expansion of maybe 3 points a year. Now we obviously did much better than that going from Q2 to Q3. But just for the next couple of years, if we can add 3 points, we get to 60% margin in 2 to 3 years.

Within a year, there are some dynamics that affect gross margins by quarter. And you're right. In the first half of the year, generally, our mobile IoT and consumer business, which is somewhat lower gross margin, not that much lower, but a little bit lower, I would argue that gross margins would be a little higher in the first half of the year just because of mix.

But the counter to that is we have this leverage on our manufacturing overhead, so the lower volumes actually hurt us on that side. So taking all of that into account, just like we have dynamics this year, our gross margins being nicely higher in the back half of the year versus the first half, I would expect the same thing next year.

So if you're modeling this, I would model gross margins to what you think it would be for the year in total. Margins will be higher in the back half than they will be in the first half.

Christopher Caso - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. And that's as the poor mix is offset by the higher manufacturing efficiencies in the second half of the year?

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

Right. And the volume is a little heavier weighting. So I would actually expect gross margins to pull back just a little bit in the first half of next year, but I expect them to be much stronger in the back half of next year, even stronger, of course, than they are in the back half of this year.

Christopher Caso - *Raymond James & Associates, Inc., Research Division - Research Analyst*

All right. That's very helpful. As a follow-up, perhaps you could talk to us about kind of what you're targeting for next year. There's a lot of opportunities in front of you.

In terms of -- what do you expect to drive the growth next year? And there's a lot on your plate. There's a lot of opportunity there. What are the things we should be paying attention to most closely as we go into next year?

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

I think the market that we -- the market trends that we have outlined continue. So clearly, comms enterprise, data centers are a big play. We are continuing to find more traction in automotive as more and more electric vehicles show up because a lot of automated driving is happening in that. We have a nice little story and connection growing in the mil aerospace market.

And then finally, the mobile IoT piece of it -- less the consumer, the mobile IoT piece of it is always a natural place for SiTime's growth because the size, the resiliency, the performance.

So I think we're also continuing to expand our customer base. Five years ago, we were addressing about 2,000 customers. Today, we're about 5x that, maybe a little bit more. And so I think the expansion of customer base, this is not the big customers, this is customers that are of a much, much smaller size, where we are working in the channel to connect with them. I think that's a good initiative for SiTime as well. So I think those are some ways that we think about it.

Operator

I'm showing no further questions at this time. I would now like to turn the conference back to Mr. Arthur Chadwick. Sir, please continue.

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

Great. Well, we want to thank everybody for joining us today on the call. And we hope that you have a great day, and thanks again for all your support.

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

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and have a wonderful day. You may all disconnect.
