

Q3 2023 MPS Earnings Webinar

Monolithic Power Systems, Inc. (NASDAQ:[MPWR](#))

Q3 2023 Earnings Conference Call

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Corporate Participants:

Genevieve Cunningham - *Senior Manager, Marketing Communications*

Michael Hsing - *Chief Executive Officer and Founder*

Bernie Blegen – *Executive Vice President and Chief Financial Officer*

Analysts:

Quinn Bolton - *Needham & Company, LLC*

Melissa Fairbanks – *Raymond James*

Gary Mobley – *Wells Fargo*

Hans Mosesmann - *Rosenblatt*

Matt Ramsay – *Cowen & Co.*

Rick Schafer – *Oppenheimer & Co, Inc.*

Ross Seymore - *Deutsche Bank AG*

William Stein - *Truist Securities, Inc.*

Tore Svanberg - *Stifel, Nicolaus & Company, Incorporated*

John Vinh – *Keybanc*

Genevieve Cunningham

Welcome everyone to the MPS Third Quarter 2023 Earnings Webinar. My name is Genevieve Cunningham, and I will be the moderator for this webinar. Joining me today are Michael Hsing, CEO and Founder of MPS; and Bernie Blegen, EVP and CFO.

In the course of today's webinar, we will make forward-looking statements and projections that involve risk and uncertainty, which could cause results to differ materially from management's current views and expectations. Please refer to the Safe Harbor statement contained in the earnings release published today.

Risks, uncertainties and other factors that could cause actual results to differ are identified in the Safe Harbor statements contained in the Q3 earnings release and in our latest SEC filings, including our Form 10-K and our Form 10-Q, which are accessible through our website. MPS assumes no obligation to update the information provided on today's call.

We will be discussing gross margin, operating expense, operating income, other income, income before income taxes, net income and earnings on both a GAAP and a non-GAAP basis. These non-GAAP financial measures are not prepared in accordance with GAAP and should not be considered as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. Tables that outline the reconciliation between the non-GAAP financial measures to GAAP financial measures are included in our Q3 2023 earnings release, which we have furnished to the SEC and is currently available on our website.

I'd also like to remind you that today's conference call is being webcast live over the Internet and will be available for replay on our website for one year, along with the earnings release filed with the SEC earlier today.

Now I'd like to turn the call over to Bernie Blegen.

Bernie Blegen

Thanks, Gen.

MPS reported third quarter revenue of \$474.9 million, 7.6% higher than the second quarter of 2023 and 4.1% lower than third quarter of 2022. Compared with Q2 2023, sales in enterprise data and storage and computing improved sequentially, while automotive, industrial and communications revenue was lower.

Turning now to our third quarter 2023 revenue by market.

In our enterprise data market, third quarter 2023 revenue of \$98.9 million increased 106.2% from the second quarter of 2023 with sequential growth in both GPU and CPU program sales. Third quarter 2023 enterprise data revenue was up 31.4% year-over-year. Enterprise data revenue represented 20.8% of MPS' third quarter 2023 revenue compared with 15.2% in the third quarter of 2022.

Storage and computing revenue of \$129.5 million increased 3.9% from the second quarter of 2023. The sequential revenue improvement primarily reflected higher sales in commercial notebooks. Third quarter 2023 storage and computing revenue was up 14.7% year-over-year. Storage and computing revenue represented 27.3% of MPS' third quarter 2023 revenue compared with 22.8% in the third quarter of 2022.

Third quarter consumer revenue of \$62.4 million decreased 4.3% from the second quarter of 2023 as higher gaming and monitor sales were offset by declines in TV and home appliance revenue. Third quarter 2023 consumer revenue was down 30.1% year-over-year. Consumer revenue represented 13.1% of MPS' third quarter 2023 revenue compared with 18.0% in third quarter of 2022.

Third quarter 2023 communications revenue of \$46.8 million was down 5.1% from the second quarter of 2023, primarily reflecting lower infrastructure sales. Third quarter 2023 communications revenue was down 35.3% year-over-year. Communications sales represented 9.9% of our total third quarter 2023 revenue compared with 14.6% in the third quarter of 2022.

Third quarter automotive revenue of \$95.2 million decreased 8.8% from the second quarter of 2023 primarily due to lower ADAS and digital cockpit sales. Third quarter 2023 revenue was up 9.3% year-over-year. Automotive revenue represented 20.0% of MPS' third quarter 2023 revenue compared with 17.5% in the third quarter of 2022.

Third quarter 2023 industrial revenue of \$42.1 million decreased 15.3% from the second quarter of 2023 due to lower sales in security and industrial meter applications. Third quarter 2023 revenue was down 28.2% year-over-year. Industrial revenue represented 8.9% of our total third quarter 2023 revenue compared with 11.9% in the third quarter of 2022.

I'd like to make some general comments about our business.

In our previous earnings calls, we have noted customer ordering patterns were oscillating within the overall market. This environment persisted through Q3. We continue to see some orders getting delayed or amended by pull-in requests. This lack of short-term visibility continues to make forecasting beyond the next quarter difficult.

However, as we said in our last call, our business fundamentals remain unchanged. Our design win pipeline and customer base expanded tremendously, particularly amongst Tier 1 accounts. Additionally, we continue to innovate and have a strong design win pipeline positioning us well for future growth.

Moving now to a few comments on gross margin.

GAAP gross margin was 55.5%, 60 basis points lower than the second quarter of 2023 and 320 basis points lower than the third quarter of 2022. Our GAAP operating income was approximately \$135.6 million compared to \$112.3 million reported in the second quarter of 2023.

Non-GAAP gross margin for the third quarter of 2023 was 55.7%, down 80 basis points from the gross margin reported for the second quarter of 2023. The quarter-over-quarter decrease in both GAAP and non-GAAP gross margin is attributed largely to an unfavorable product mix.

Our non-GAAP operating income was \$167.8 million compared to \$153.1 million reported in the second quarter of 2023.

Let's review our operating expenses.

Our GAAP operating expenses were \$128 million in third quarter of 2023 compared with \$135.4 million in the second quarter of 2023. Our non-GAAP third quarter 2023 operating expenses were approximately \$96.6 million, essentially flat with what we saw in each of the first two quarters of 2023.

The differences between non-GAAP operating expenses and GAAP operating expenses for the quarters discussed here are primarily stock compensation expense and income or loss on an unfunded deferred compensation plan.

For the third quarter of 2023, stock compensation expense, including approximately \$1 million charged cost of goods sold, was \$33.6 million compared with \$38 million recorded in the second quarter of 2023.

Switching to the bottom line.

Third quarter 2023 GAAP net income was \$121.2 million or \$2.48 per fully diluted share compared with \$99.5 million or \$2.04 per share in the second quarter of 2023. Third quarter 2023 non-GAAP net income was \$150.3 million or \$3.08 per fully diluted share compared with \$137.5 million, or \$2.82 per fully diluted share in the second quarter of 2023. Fully diluted shares outstanding at the end of Q3 2023 were \$48.8 million.

Now let's look at the balance sheet.

Cash, cash equivalents and investments were \$1.04 billion at the end of third quarter 2023 compared with \$941.1 million at the end of the second quarter of 2023. For the quarter, MPS generated operating cash flow of approximately \$175.9 million compared with Q2 2023 operating cash flow of \$90.2 million.

Accounts receivable ended the quarter of 2023 at \$185.8 million, representing 36 days of sales outstanding, which was one-day higher than the 35 days reported at the end of the second quarter of 2023.

Our internal inventories at the end of the third quarter of 2023 were \$397.3 million, down from \$427.4 million at the end of the second quarter of 2023. Days of inventory of 171 days came in at the end of the third quarter of 2023 were 30 days lower than at the end of the second quarter of 2023.

Comparing current inventory levels with the following quarter's projected revenue, you can see days of inventory decreased to 180 days at the end of the third quarter of 2023 from 184 days at the end of the second quarter of 2023.

I would now like to turn to our outlook for the fourth quarter of 2023.

We are forecasting Q4 revenue in the range of \$442 million to \$462 million.

GAAP gross margin in the range of 55.2% to 55.8%.

Non-GAAP gross margin in the range of 55.4% to 56%. Total stock-based compensation expense in the range of \$32.2 million to \$34.2 million, including approximately \$1 million that would be charged to cost of goods sold.

GAAP operating expenses between \$127.1 million to \$131.1 million. Non-GAAP operating expenses in the range of \$95.9 million to \$97.9 million. This estimate excludes stock compensation expense but includes litigation expense.

Interest and other income in the range from \$4.1 million to \$4.5 million before foreign exchange gains or losses. Fully diluted shares in the range of 48.7 million to 49.1 million shares.

We are also pleased to announce that our Board of Directors has approved a share buyback program for up to \$640 million over the next 3 years with the goal of offsetting future dilution.

In conclusion, while we expect visibility to remain limited in the short term, which was the same as last quarter, we continue to execute on the long-term strategy.

I will now open the webinar up for questions.

Genevieve Cunningham

Thank you, Bernie. Analysts, I would now like to begin our Q&A session. As a reminder, if you would like to ask a question, please click on the “participants” icon on the menu bar, and then click the “raise hand” button.

Our first question is from Quinn Bolton of Needham. Quinn, your line is now open.

Quinn Bolton

Hi. Michael and Bernie, congratulations on the results and the outlook in a tough market. I guess, Bernie, Michael, the enterprise data business is very strong quarter-on-quarter. Wondering if you could just give us some thoughts as you look into next year, how you see the GPU business. And specifically, do you see sort of expansion of that customer list driving strength in GPUs?

And then a question on CPU. You said CPU was up in the third quarter. Wondering if you're finally starting to see some strength in the Sapphire Rapids and Genoa side of that business? And then I have a follow-up question. Thank you.

Michael Hsing

At this time, Quinn, as Bernie said earlier, these markets are very much oscillating and that came in the net, you see it. We're down from this quarter. So from last year, year-to-year, we're still down. But AI, as these are power modules and as we're ramping up as a result of -- can maintain growth over in these years and still a slight growth from the last years. That's mainly due to AI.

And also in the prior quarters in the autos that we see as a very lumpy business, as lumpy for ADAS ramping up. But all of these, we believe that will happen in ramping up in the next year, not only from ADAS.

And also, as you mentioned about on the general CPU and in the server side.

And I might as well as mention all the other ones. We still have a lot of greenfield products that haven't really ramped up yet. And many, many projects gets delayed in this year pushing to next year. And we don't want to give a very clear forecast that we still don't know yet. But sometime in the next years, we believe that they will start ramping up and all these greenfield products. So that's kind of my summary for the near-term business.

Quinn Bolton

Thank you, Michael. I guess a follow-up question. Bernie, I think in the script, you mentioned some pushouts, some pull-ins or expedites. I think the pull-ins or expedites maybe newer given just the overall challenging industry. Were the pull-ins specific to certain customers or end markets or are you starting to see pull-in requests across multiple end markets? Thank you.

Bernie Blegen

Yes. Quinn. I think what we're experiencing here is a unique business cycle and that right now, our end customers are unwilling to commit beyond a fairly narrow window of expecting lead times within under 10 weeks for delivery. So that makes, as we said earlier in the comments, the predictability really hard to call right now. But I think, as Michael just said, that when we look at our design win pipeline, it's strong. And we're confident that we're in a good position to capture share and growth as the market recovers. But right now, we're still in a level of unpredictability.

Michael Hsing

He's talking about which segments.

Bernie Blegen

Oh, I'm sorry. Which segments?

Michael Hsing

Yes, which segments. We look at it kind of a rough surveys. It's actually across the entire product segment, including consumers. Some of the products, they need and pull-it in very quick. As Bernie said, the lead time is very, very short. And we don't have those products, it's pretty much across the board. And other than AI, we really planned ahead, and we really plan ahead from the beginning of the year. And we can anticipate all the ramp-up even for the next few quarters.

Quinn Bolton

Got it. Okay. Thank you.

Genevieve Cunningham

Our next question is from Tore Svanberg of Stifel. Tore, your line is now open.

Tore Svanberg

Yes. Thank you, Michael, Bernie. Congratulations on that \$1 billion cash balance. First question is on the Q4 outlook. I know you typically don't guide by segment, but can you just talk about directionally where you expect each segment to trend in Q4?

Michael Hsing

Yes. Q4 is still down quite a bit from Q3 and pretty much everything except maybe not auto. I mean all the other sideways are maybe is slightly up and also that AI power still continuously to ramp up.

Bernie Blegen

Yes. I think that when you look at the broader market, we're experiencing a lot of the weakness in demand that many of our peer companies are. And what makes us differentiated is the AI boost we're experiencing.

Michael Hsing

And pretty much AI and auto and everything else is pretty much muted, yes.

Tore Svanberg

Very good. And as my follow-up and maybe related to the previous question on enterprise data and AI, just wondering if you have any visibility on the sustainable growth here. There's obviously one big partner that's ramping right now, but it looks like there's some other processor companies that are going to be catching up next year. So if you could give us any color on, especially enterprise data segment for 2024, that would be really helpful.

Michael Hsing

I can tell you, overall, how the MPS strategies. Like the MPS strategy always get the best -- which provides the best performance. When the volume gets higher and requirement is lower, we don't chase those low-end segment. I see MPS is still in the forefront in terms of best efficiencies and the lowest generating heat in smallest areas. We are still the leading -- would be next year and the year after, all these products are eyeing in development with our customers and with the leading-edge -- leading providers in AI GPUs specifically. And that's a huge market, and we don't want to take all of them.

And to your other part of the question is the general market. In general market, in other segments, we view CPUs. And you'll remember in the VR13, we didn't have a lot of design wins. But we put up a lot of inventories in the VR13.5, it became a serendipity. We have a few project design win and other supply -- couldn't ship, but we ship a lot. So that's where you see the server data center growth. That's because of that. And for next years, we were told to get ready to have those projects ramping up in rapid sapphire, let's call it. And so when these markets are already ramping up, MPS are there.

Bernie Blegen

I think, Tore, you hit on a couple of very good points that as far as the AI GPU opportunity, we're very well positioned both for the near term, in 2024, but more importantly, longer term. And as Michael just emphasized, there is a differentiated market there and we want to stay at the high end of that market. So we've always been aware that there would be competitors entering this space and that's how we're differentiating ourself.

And then as far as the CPU and GPU markets what we're preparing to do is to manage the uptick in demand that we're anticipating by building that inventory during the next couple of quarters.

Michael Hsing

Oh, yes. That's what I forgot, while I tried to make a point. And MPS doesn't want to be known as AI power company. We want to focus on the diversified growth. And we do have a lot of greenfield products still haven't realized yet. These are across the segment. And also in the consumer side, in the last years, okay, because last couple of years because the shortages we kind of neglect it. And that will -- in the last half years, we developed a low-cost product and we introduced the market where you'll see the growth. That's only on the -- because of very short design cycle, you will see revenue from next year. And all the other product like industrials, automotive, in tracking inverters, in chargers and also ADAS, these were ramping up. And so we want to achieve very diversified growth, not only on the AI side.

Tore Samberg

Great color. Good job with the buyback. Thank you.

Genevieve Cunningham

Our next question is from Ross Seymore of Deutsche Bank. Ross, your line is now open.

Ross Seymore

Hi, guys, can you hear me?

Michael Hsing

Yes. Hi, Ross.

Ross Seymore

Hi, there guys. So I guess the question I have is, I don't know cyclical or seasonality is carrying the day. But the last couple of quarters, you've talked about weakness. You're not unique in that. But the fourth quarter, you seem to be guiding pretty much back to a seasonal drop. If I look into the first quarter, is that something that you expect to continue, or is visibility just too limited to really comment on that quite yet.

Michael Hsing

Yes. Well, the numbers kind of reflected seasonal, but the reality is it just happened that way, we can't call it seasonal. This is a fast-changing market, I mean, it's very difficult for us to forecast. That's difficult. Unfortunately, we have a lot of capacities. But these capacity were still the lead time still shorter than our production cycle and we have to get ready just that.

Bernie Blegen

Ross, you bring up a really good point is that if we look at the outlook for Q4, a portion of that is how competitive we were at going after the notebook market. And so the Q4, we're experiencing a little bit of a decline as those are seasonal sales.

When we look at Q1, Michael said it best, there isn't a lot of visibility. But as we look at this cycle, we believe that next year is really back half-weighted. And so I would probably indicate that we'll have a more conservative profile as we look at the first half of 2024.

Michael Hsing

Yes. Also, I forgot to mention about it. And we talked about beginning of the year, we'll be aggressive on price and especially within the course of board. And then we have a new product in the consumer segment come out -- already came out.

And also in a notebook area, we pretty much have a large market share in the commercial side. In the beginning of the year, we were very starting -- become very

aggressive on the price. And now, fourth quarter, you see it in our notebook side start to gain more shares in the consumer side.

Ross Seymore

Got it. Thanks for that. And my one follow-up, I want to just pivot over to the gross margin side of things. You mentioned, Bernie, in your script that you're at the low end of your guidance because of mix. I was a little surprised that enterprise data more than doubled sequentially, but yet you pointed to mix. Can you just talk a little bit about what's going on? What mix were you referring to because I think, whether correctly or incorrectly, at least I assume that enterprise data would be an accretive gross margin category.

Michael Hsing

Sure. Well, consumer notebook, margins are very low. But it's an easier money to be made.

Bernie Blegen

Yes. Michael is exactly right, is that we have been aggressive on pricing across the board. And while that isn't called out specifically as a contributing factor to the lower gross margin, it is reflected in the overall mix, notwithstanding the impact of the GPU and AI business.

Ross Seymore

And has that pricing dynamic, is that starting to kind of normalize from here? Or is that an incremental headwind that we should consider going forward?

Bernie Blegen

I believe that as the market begins to stabilize, that will return to a more normal profile as far as pricing. Again, a very specific point to make here is that most of our customers are attracted and we secured design wins because of our innovation as opposed to pricing alone. So I believe that as the market stabilizes sometime in 2024 that we'll probably return to a more normal pricing environment as well.

Michael Hsing

Yes. You said product mix, right? But also, there's other capacities, and capacity utilizations in [indiscernible] and also add a lot of capacity cost for us. So it's a mix of all of them, not only the product mix.

Ross Seymore

Thank you.

Genevieve Cunningham

Our next question is from Rick Schafer of Oppenheimer. Rick, your line is now open.

Rick Schafer

Hey, guys. Let me add my congratulations. If I could follow up, just one more question on enterprise data. You mentioned your greenfield product lineup for next year, I think, a couple of times on call. And one of those really stands out is the silicon carbide power isolation module you guys are working on. And I know that's for a couple of different end markets.

I was hoping you could give some color around the sort of engagements you're seeing right now with the CSPs, so in data center, maybe a sense of timing of when those initial revenues would start showing up in the model. And my bigger question is really, do you view sort of power isolation module as a TAM expander for your existing enterprise data franchise? Thanks.

Michael Hsing

Let me answer your first for silicon cover. Thanks for reminding me this. I almost forgot. Yes, we released the product. And first revenue, we'll see sometime in the next years, would be in the solar inverters. And the green energies had a lot of demand, we have got products we designed for those -- that market segment and will start to ramp and also in automotive. And these are not specifically for tracking inverter for these drivers. We do power management.

And we will see those products designed and ramping up much later. I mean these are clearly in the dip -- there's a void in the market. No other company produces that kind of a product, and it became very unique. And so I have a very good confidence

in the second half of next year, the year after. We will see a lot of new revenue coming from that segment.

And what's the second questions, second part of the --

Rick Schafer

Yes. Within CSP, the full rack power that I know you guys have discussed. Is there any color you could give around how you view that? Is that sort of a TAM expander for your enterprise data segment? I'm sorry, the hyperscalers?

Michael Hsing

Oh, the hyperscaler. Hyperscaler is now -- you guys know better than we do. We just only provide the power. So I can mean that, for the CPU side, GPU side, as we said earlier, VR14, we expect to have bigger shares. And if you refer to silicon carbide in that we will develop those products. Those are power supplies. And again, these are plug-and-play power supply, and these are large modules. And that will ramp up -- I don't have a time frame. Probably is towards the very end of the next year, the 2025.

Rick Schafer

Okay. Thanks a lot for that color, Michael. And I guess, maybe if I could try one more slide that Ross question on gross margin. I don't know, Bernie, if you could give us any kind of rule of thumb. And I understand it's a mix issue and I hear everything you're saying about the current pricing environment. But as we look the thing sort of normalizing, say, in the second half next year, say you get back to your \$2 billion or better kind of run rate, I mean, should we be thinking gross margin at that level should be back sort of tilting toward the high 50s again at that sort of a run rate?

Bernie Blegen

Yes. I would not be too quick to jump to the high 50s in the near term here. I think that what we've said previously is that we expect for the next few quarters to stay within our model, targeting about 56% plus or minus 50 basis points. And then, as we look at the second half of next year, as things stabilize and we get a better mix that we should see return to have an incremental improvement.

Michael Hsing

Yes. I still see some and I didn't look at the number in details. We expand a lot of capacities. And these are strategically not mistake. And we do see a lot of growth in the next couple of years. And so I believe this capacity, the utilization had taken into effect on the gross margins. I don't know how many -- what's the percentage? I don't know. Maybe Bernie can answer you later.

Bernie Blegen

Yes. On the capacity, and I'll take this topic on because it's an important one as we look ahead, is we talked about a year ago as far as developing new relationships with fab partners, particularly in Taiwan and Singapore as we not only expand capacity in advance of a future upswing in demand but also to diversify by geography. And so those investments are adding to our overall cost profile more in the R&D side than in gross margin specifically today, but that capacity will become available here just as we see the second half of next year starting to --

Michael Hsing

Well, these are for future. China is on --

Bernie Blegen

Yes.

Michael Hsing

But the capacity that we expanded from a year ago and it's not utilized, not yet?

Bernie Blegen

Yes, not yet.

Michael Hsing

Okay. Or the test equipment. Okay.

Rick Schafer

Thanks for all the color guys.

Genevieve Cunningham

Our next question comes from William Stein of Truist. William, your line is now open.

William Stein

Great. Thanks for taking my question. I'm hoping Michael, you talked about traction in design wins that will turn into revenue over the next several quarters and years. It sounds like you've been very busy with these, as you always are. And often, that means you can see sort of what's coming a little earlier in terms of where the revenue might shift in terms of the end markets and products and that sort of thing.

So when you think about the bigger design wins, either the bigger volume runners or the bigger ASP drivers, is there a shift either in end markets or in mix, let's say, for modules or motion control or things like that? Any other shifts in the revenue mix that we should expect because of these design wins that have yet to ramp?

Michael Hsing

Well, thanks for reminding me the motion. I forgot about that. Okay, yes, we do have a lot of design win in the motion side, too. And we look at it. And the beauty is, I can't call it specifically, really across the board. And that means we have our biggest customers, like 4%, 5%, maybe slightly higher out of these years. And all the other customers, there are a few thousand customers and a few thousand products around, I don't know how many market segments. And they are very healthy in terms of design win activities.

So all of them will turn into revenues. And I can give you some bigger segments, and not many people talking about it. And is not, what is it, a USB-C, USB-PD. And I believe that this will be a huge revenue and growth. And MPS has a lot more content versus a USB-PD versus the USB --

Bernie Blegen

Earlier versions.

Michael Hsing

Yes, earlier versions like type B, okay, now it's Type C. And some of them in auto will be cannibalized for USB type B plugs. And but C is a much higher content, and that's

in auto. And in the consumer side, it's totally new. And USB B type is a very low -- is like a consumer side. And now they're converting to USB-C, and that will be a lot broader applications. And it's based on -- because all unified plugs, and especially European countries and drive that standards and I think to migrate to everywhere. They have a clear mayday went to switch it.

And I believe even [indiscernible] on, for the next version of a phone will be USB-C. And we see MPS has a lot of opportunities, a lot of growth. So other than that, battery management and that will ramp in 2014. And again in a lot of different applications from --

Bernie Blegen

2024.

Michael Hsing

Yeah 2024. And these are from power tool to garden tools and from all kind of other things. I mean those are already designed in products, okay, we're ramping in the next 12 to 24 months or less than 6 to 24 months, I guess, yes.

Bernie Blegen

And in addition, just to repeat sort of the opportunities that we talked about in both green energy, clean energy and as well as in DDR5. So there's a large number of products that are expected to ramp here very quickly for us.

William Stein

Great. If I can ask one follow-up. The inventory decline sequentially surprised us a bit. Perhaps this was always your plan. But if it wasn't, can you describe what happened here? Perhaps customer came in with more demand for something or maybe you decided mid-quarter to reduce production. What -- maybe just set me straight on this issue.

Michael Hsing

We reduced the overall inventories that came in starting at the beginning of the year. That's probably reflects that. And yes, and it doesn't mean we will keep that low. We will boost that up more.

Bernie Blegen

Yes. What we've done is, we've said that we have a range of inventory that we want to operate within between 180 to 200 days. And what you've seen is that we did reduce wafer starts about 9 months or 3 quarters ago, and that's now being reflected in our balance sheet today. But as we anticipate the demand for all of the opportunities that we see possible for 2024, we are beginning to ramp inventory. And as Michael said, we have the capacity available to take advantage of that.

William Stein

Thanks, guys.

Genevieve Cunningham

Our next question is from Matt Ramsay of Cowen. Matt, your line is open.

Matt Ramsay

Thank you very much. Good afternoon, guys. Michael, I wanted to dig into the automotive market a bit and understand the drivers of the business over the next several quarters. I think you guys have some very exciting new content with one of the leading EV OEMs in the States and obviously some really good content with a number of folks in Asia. So if you could try to help us break down what your expectations are for the drivers of your automotive business over the next, I don't know, 6, 9 months relative to some, I'd say, fluctuations in unit expectations from some key customers, I'd really appreciate it. Thanks.

Michael Hsing

Yes. These type of products is not like a consumers. Like a 0.5 year and you can design you out. And it took us a year -- it took us years and it took us at least 12 months to work with our customers, the major suppliers, and to put in the system and make a production worthy and working. And that's a long effort.

And frankly, I don't really care, okay? As long as you win those socket or you win those projects. I mean the revenue will come. And so when is the next 3 months or next 9 months? I don't really know. I mean we thought from the last year, again, we saw the last year, middle of this year, we'll start to ramp up. It didn't. But I think it's next year, sometimes that we'll see more and more ADAS and also the new type of

tracking inverters. And so that's pretty much just as everybody else expected. All these products are ramping up, okay, we'll go with it.

Bernie Blegen

And if I can just add to that, that a lot of the customers that are picking up on design wins are skewed more heavily to EVs that are inviting new technology platforms. And that market has slowed in unit volumes observed. But the exciting part of this story is that we see that new platform launches for those customers are in position to ramp in the first half of next year. And we're seeing a proliferation of a broadening of those technologies going into more traditional internal combustion, or IC brands. So I think that the automotive market, while it's difficult to time that our positioning is very secure.

Michael Hsing

Yes. Okay. That's a good point. That ADAS, they start to ramp. We were told at the beginning of the year and at the end of the year and now we were told next years. But all of these are new for us. And in the digital cockpit and also ADAS. So now they tell us early next year. And I don't know I can believe or not. I mean --

Bernie Blegen

We'll see, we'll see.

Matt Ramsay

Thank you, guys. I guess my follow-up question, it's not, to me, the most strategically important part of your business, but I think it has a lot of different benefits is the consumer market in Asia. And I mean Bernie used the cookie jar analogy a number of times over the years. And the consumer market got down to a small enough percentage of your revenue.

I think there was an intention to potentially really lean in and try to regrow that business both from a revenue perspective and also, it gives you a lot of flexibilities around growth and margins. And maybe the demand environment is not there today to really lean in and regrow that. But I just wanted to do a pulse check on the strategy, that's still the intention to regrow that business as a percentage of revenue and you feel like you have the product portfolio to go and do that?

Michael Hsing

The strategy is correct. And as in the last quarter, I said like has dropped to unhealthy positions, way too low. And there's a lot of money to be made. And margin may be lower but it helped the EPS a lot.

So the second question is whether we have enough product? We did a lot of them, and that came in last 0.5 years. And other ones will release in next couple of quarters and our next quarter also, and those will turn into revenues in the 0.5 year to 9 months' time.

Bernie Blegen

We remain committed to the consumer marketplace as part of our diversification.

Michael Hsing

Absolutely. Okay.

Matt Ramsay

Thank you, guys. Have a good afternoon. Appreciate it.

Genevieve Cunningham

Our next question is from Tore Svanberg of Stifel. Tore, your line is now open.

Tore Svanberg

Yes. Thank you. I just had two quick follow-ups. First of all, on the buyback, I mean, this is from a size perspective something that's quite large. And we don't have much history with the company in regards to a size like that. So how should we think about, I guess, philosophy with the buyback? You mentioned to offset dilution, but are you going to be opportunistic? Or are you like some other companies where you buy the stock regardless of the price? Just trying to understand some of the dynamics there.

Bernie Blegen

Yes. So I'd like to comment on that very quickly is that when we looked at doing the buyback, we were demonstrating confidence in our free cash flow over the next 3-

year window. And the goal here is to offset dilution that will naturally occur during that period of time. So we're going to apply a go-to-market strategy that is both opportunistic but also programmatic. So we don't have a timetable necessarily for how to implement it during that period, but it will reflect both existing market conditions as well as a systematic program.

Michael Hsing

Well, Bernie implies a buy low, keep it higher, yes.

Tore Svanberg

Yes, that's very helpful. The other follow-up, and I know this is a minor detail, but your lighting control business was up quite a bit in the quarter. Was that mainly because of notebook, or was there something else going on there?

Michael Hsing

Lighting business?

Bernie Blegen

I'm sorry, Tore, you broke up a little bit. Were you talking about storage and computing?

Tore Svanberg

No, no, no. So you have the lighting control business. I mean you showed this in your filings. It was up about 20% sequentially. And I was just wondering if that was because of notebook or anything else.

Michael Hsing

No, these are decorative lighting. We don't have a lot of consumer business anymore. But these are small numbers, okay? I mean I don't know that specifically, but I do know we don't have a lot of consumers because these are really, really low price. These are industrial lightings and decorative lighting.

Bernie Blegen

Yes. I apologize, Tore. I think that you broke up and we missed the heart of your question, which end market?

Michael Hsing

Lighting, he said.

Tore Svanberg

Yes. You have a lighting control versus DC to DC, right? So lighting control, it increased by \$4.5 million sequentially. It was up 20%. It's a \$100 million annual business. I mean it's not trivial, but obviously, small in the bigger scheme of things.

Michael Hsing

Yes.

Bernie Blegen

Yes. Again, Michael addressed it, but it's a general market.

Michael Hsing

I don't know it specifically, but that's the market where we're in. We will position ourself. We're not specifically in the consumer and in high volumes.

Bernie Blegen

And also, it's in automotive as well.

Michael Hsing

Yes. You're right.

Genevieve Cunningham

If there are any follow-up questions, please click the “raise hand” button. As there are no further questions, I would now like to turn the webinar back over to Bernie.

Bernie Blegen

Just closing here, I'd like to thank you all for joining us this webinar and I look forward to talking to you again during the fourth quarter, which will likely be at the end of January. Thank you. Have a nice day.