

Monolithic Power Systems

Q2'24 Earnings Commentary



The highest quality power solutions for
Industrial Applications, Telecom Infrastructures,
Cloud Computing, Automotive, and Consumer Applications

Monolithic Power Systems to Report Second Quarter Results on August 1, 2024

MPS will report its results after the market closes on August 1, 2024 and host a question-and-answer webinar at 2:00 p.m. PT / 5:00 p.m. ET. The live event will be held via a Zoom webcast, which can be accessed at <https://mpsic.zoom.us/j/97644523160>.

Q2 2024 Financial Summary

(Unaudited)

GAAP

	Q2'24	Q1'24	Q2'23	QoQ Change	YoY Change
Revenue (\$k)	\$ 507,431	\$ 457,885	\$ 441,128	Up 10.8%	Up 15.0%
Gross Margin	55.3%	55.1%	56.1%	Up 0.2 pts	Down 0.8 pts
Opex (\$k)	\$ 164,042	\$ 156,954	\$ 135,350	Up 4.5%	Up 21.2%
Operating Margin	23.0%	20.9%	25.5%	Up 2.1 pts	Down 2.5 pts
Net income (\$k)	\$ 100,366	\$ 92,541	\$ 99,504	Up 8.5%	Up 0.9%
Diluted EPS	\$ 2.05	\$ 1.89	\$ 2.04	Up 8.5%	Up 0.5%

Non-GAAP

	Q2'24	Q1'24	Q2'23	QoQ Change	YoY Change
Revenue (\$k)	\$ 507,431	\$ 457,885	\$ 441,128	Up 10.8%	Up 15.0%
Gross Margin	55.7%	55.7%	56.5%	Flat	Down 0.8 pts
Opex (\$k)	\$ 111,667	\$ 103,426	\$ 96,006	Up 8.0%	Up 16.3%
Operating Margin	33.7%	33.1%	34.7%	Up 0.6 pts	Down 1.0 pts
Net income (\$k)	\$ 155,076	\$ 137,492	\$ 137,509	Up 12.8%	Up 12.8%
Diluted EPS	\$ 3.17	\$ 2.81	\$ 2.82	Up 12.8%	Up 12.4%

Revenue by End Market

End Market (\$M)	Revenue		YoY Change		% of Total Rev	
	Q2'24	Q2'23	\$	%	Q2'24	Q2'23
Enterprise Data	\$187.2	\$48.0	139.2	290.0%	36.9%	10.9%
Storage & Computing	114.9	124.5	(9.6)	(7.7%)	22.7	28.2
Automotive	87.2	104.4	(17.2)	(16.5%)	17.2	23.7
Communications	43.6	49.3	(5.7)	(11.6%)	8.5	11.1
Consumer	42.2	65.2	(23.0)	(35.3%)	8.3	14.8
Industrial	32.3	49.7	(17.4)	(35.0%)	6.4	11.3
Total	\$507.4	\$441.1	66.3	15.0%	100%	100%

Ongoing Business Conditions

MPS reported record quarterly revenue with Q2 2024 revenue of \$507.4 million, exceeding the high end of our outlook.

Our strong Q2 2024 revenue growth was attributed to three factors:

- Increased demand for AI power solutions,
- Improving order trends in several of our end markets, and
- Initial revenue ramps associated with design wins secured in past years.

Separately, we continued to expand and diversify our global supply chain to ensure supply stability and capture future growth. Overall, our proven strategy remains intact, and we believe we can swiftly adapt to market changes as they occur.

“As we have emphasized for many years, our results reflect the continued success of our proven, long-term growth strategy and our transformation from being only a chip supplier to a full solutions provider,” said Michael Hsing, CEO and founder of MPS.

Revenue

MPS reported second quarter revenue of \$507.4 million, 10.8% higher than the first quarter of 2024 and 15.0% higher than the second quarter of 2023. Compared with the first quarter of 2024, sales in Enterprise Data, Consumer, Storage and Computing, Industrial, and Automotive improved sequentially.

In our Enterprise Data market, second quarter 2024 revenue of \$187.2 million increased 25.0% from the first quarter of 2024 primarily from growth in sales supporting server AI solutions. Second quarter 2024 Enterprise Data revenue was up 290.0% year over year. Enterprise Data revenue represented 36.9% of MPS' s second quarter 2024 revenue compared with 10.9% in the second quarter of 2023.

Second quarter Consumer revenue of \$42.2 million increased 10.9% from the first quarter of 2024 primarily from sales in TV solutions. Second quarter 2024 Consumer revenue was down 35.3% year over year. Consumer revenue represented 8.3% of MPS's second quarter 2024 revenue compared with 14.8% in the second quarter of 2023.

Storage and Computing revenue of \$114.9 million increased 8.3% from the first quarter of 2024. The sequential increase was primarily from higher sales of products for storage solutions. Second quarter 2024 Storage and Computing revenue was down 7.7% year over year. Storage and Computing revenue represented 22.7% of MPS's second quarter 2024 revenue compared with 28.2% in the second quarter of 2023.

Second quarter 2024 Industrial revenue of \$32.3 million increased 6.8% from the first quarter of 2024 due to higher sales for security solutions. Second quarter 2024 Industrial revenue was down 35.0% year over year. Industrial revenue represented

6.4% of our total second quarter 2024 revenue compared with 11.3% in the second quarter of 2023.

Second quarter Automotive revenue of \$87.2 million increased 0.1% from the first quarter of 2024. Second quarter 2024 Automotive revenue was down 16.5% year over year. Automotive revenue represented 17.2% of MPS's second quarter 2024 revenue compared with 23.7% in the second quarter of 2023.

Second quarter 2024 Communications revenue of \$43.6 million was down 6.6% percent from the first quarter of 2024 primarily due to lower network sales. Second quarter 2024 Communications revenue was down 11.6% year over year. Communications sales represented 8.5% of our total second quarter 2024 revenue compared with 11.1% in the second quarter of 2023.

Gross Margin & Operating Income

GAAP gross margin was 55.3%, 20 basis points higher than the first quarter of 2024. The quarter-over-quarter increase was attributed primarily to a favorable product mix. Our GAAP operating income was approximately \$116.5 million compared to \$95.5 million reported in the first quarter of 2024.

Non-GAAP gross margin for the second quarter of 2024 was 55.7%, flat to the first quarter of 2024. Our non-GAAP operating income was \$171.0 million compared to \$151.6 million reported in the first quarter of 2024.

Operating Expenses

Our GAAP operating expenses were \$164.0 million in the second quarter of 2024 compared with \$157.0 million in the first quarter of 2024.

Our Non-GAAP second quarter 2024 operating expenses were approximately \$111.7 million, up from \$103.4 million in the first quarter of 2024.

The differences between non-GAAP operating expenses and GAAP operating expenses for the quarters discussed here are primarily stock compensation and related expense and deferred compensation plan expense.

For the second quarter of 2024, total stock compensation and related expenses, including approximately \$1.6 million charged to cost of goods sold, was \$52.7 million compared with \$51.8 million recorded in the first quarter of 2024.

The Bottom Line

Second quarter 2024 GAAP net income was \$100.4 million or \$2.05 per fully diluted share, compared with \$92.5 million or \$1.89 per share in the first quarter of 2024.

Second quarter 2024 non-GAAP net income was \$155.1 million or \$3.17 per fully diluted share, compared with \$137.5 million or \$2.81 cents per fully diluted share in the first quarter of 2024.

There were 48.9 million fully diluted shares outstanding at the end of the second quarter of 2024.

Balance Sheet and Cash Flow

Cash, cash equivalents and investments were \$1.31 billion at the end of the second quarter of 2024 compared to \$1.29 billion at the end of the first quarter of 2024. For the quarter, MPS generated operating cash flow of approximately \$141.0 million compared with the first quarter of 2024 operating cash flow of \$248.0 million.

Accounts receivable ended the second quarter of 2024 at \$157.9 million, representing 28 days of sales outstanding, which was 11 days lower than the 39 days reported at the end of the first quarter of 2024.

Our internal inventories at the end of the second quarter of 2024 were \$426.8 million, up from \$396.0 million at the end of the first quarter of 2024. Days of inventory of 171 days at the end of the second quarter of 2024 were 4 days lower than at the end of the first quarter of 2024.

We have carefully managed our internal inventories throughout the year, balancing the uncertainty in the market with being prepared to capture market upturns when they occur. Comparing current inventory levels using next quarter's projected revenue, days of inventory decreased to 145 days at the end of the second quarter from 159 days at the end of the first quarter of 2024.

Selected Balance Sheet and Inventory Data

(Unaudited)

	Q2'24	Q1'24	Q2'23
Cash, Cash Equivalents, and Investments	\$1,307.6 M	\$1,286.9 M	\$941.1 M
Operating Cash Flow	\$141.0 M	\$248.0 M	\$90.2 M
Accounts Receivable	\$157.9 M	\$194.4 M	\$169.2M
Days of Sales Outstanding	28 Days	39 Days	35 Days
Internal Inventories	\$426.8 M	\$396.0 M	\$427.4 M
Days of Inventory (current quarter revenue)	171 Days	175 Days	201 Days
Days of Inventory (next quarter revenue)	145 Days	159 Days	184 Days

Q3'24 Business Outlook

For the third quarter of 2024 ending September 30, we are forecasting:

- Revenue in the range of \$590 million to \$610 million.
- GAAP gross margin in the range of 55.2% to 55.8%.

- Non-GAAP gross margin in the range of 55.5% to 56.1%. which excludes the impact from stock-based compensation and related expenses as well as the impact from amortization of acquisition-related intangible assets.
- Total stock-based compensation and related expenses in the range of \$51.7 million to \$53.7 million including approximately \$1.6 million that would be charged to cost of goods sold.
- GAAP operating expenses between \$160.1 million and \$164.1 million.
- Non-GAAP operating expenses in the range of \$118.3 million to \$120.3 million. This estimate excludes stock-based compensation and related expenses.
- Interest and other income in the range from \$6.1 million to \$6.5 million before foreign exchange gains or losses.
- Non-GAAP tax rate of 12.5% for 2024.
- Fully diluted shares outstanding in the range of 48.8 to 49.2 million shares.

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Safe Harbor Statement

This earnings commentary contains, and statements that will be made during the accompanying webinar will contain, forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including under the “Q3’24 Business Outlook” section herein, our statement regarding our proven strategy remaining intact and the statement regarding our ability to swiftly adapt to market change, including, among other things, (i) projected revenue, GAAP and non-GAAP gross margin, GAAP and non-GAAP operating expenses, stock-based compensation and related expenses, amortization of acquisition-related intangible assets, other income before foreign exchange gains or losses, and fully diluted shares outstanding, (ii) our outlook for the third quarter of fiscal year 2024 and the near-term, medium-term and long-term prospects of MPS, including our ability to adapt to changing market conditions, performance against our business plan, our ability to grow despite the softening in our business, our industry and the global economic environment, revenue growth in certain of our market segments, potential new business segments, our continued investment in research and development (“R&D”), expected revenue growth, customers’ acceptance of our new product offerings, the prospects of our new product development, our expectations regarding market and industry segment trends and prospects, and our projected expansion of capacity and the impact it may have on our business, (iii) our ability to penetrate new markets and expand our market share, (iv) the seasonality of our business, (v) our ability to reduce our expenses, and (vi) statements regarding the assumptions underlying or relating to any statement described in (i), (ii), (iii), (iv), or (v). These forward-looking statements are not historical facts or guarantees of future performance or events, are based on current expectations, estimates, beliefs, assumptions, goals, and objectives, and involve significant known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from the results expressed by these statements. Readers of this earnings commentary and listeners to the accompanying conference call are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. Factors that could cause actual results to differ include, but are not limited to, continued downturn in the global economy, including due to the Russia-Ukraine and Middle East conflicts, inflation, consumer sentiment and other factors; adverse events arising from orders or regulations of governmental entities, including such orders or regulations that impact our customers or suppliers, and adoption of new or amended accounting standards; adverse changes in laws and government regulations such as tariffs on imports of foreign goods, export regulations and export classifications, including in foreign countries where MPS has offices or operations; the effect of export controls, trade and economic sanctions regulations and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets, particularly in China; our ability to obtain governmental licenses and approvals for international trading activities or technology transfers, including export licenses; acceptance of, or demand for, our products, in particular the new products launched recently, being different than expected; our ability to increase market share in our targeted markets; difficulty in

predicting or budgeting for future customer demand and channel inventories, expenses and financial contingencies (including as a result of any continuing impact from the Russia-Ukraine and Middle East conflicts); our ability to efficiently and effectively develop new products and receive a return on our R&D expense investment; our ability to attract new customers and retain existing customers; our ability to meet customer demand for our products due to constraints on our third-party suppliers' ability to manufacture sufficient quantities of our products or otherwise; our ability to expand manufacturing capacity to support future growth; adverse changes in production and testing efficiency of our products; any political, cultural, military, regulatory, economic, foreign exchange and operational changes in China, where a significant portion of our manufacturing capacity comes from; any market disruptions or interruptions in our schedule of new product development releases; our ability to manage our inventory levels; adequate supply of our products from our third-party manufacturing partners; adverse changes or developments in the semiconductor industry generally, which is cyclical in nature, and our ability to adjust our operations to address such changes or developments; the ongoing consolidation of companies in the semiconductor industry; competition generally and the increasingly competitive nature of our industry; our ability to realize the anticipated benefits of companies and products that MPS acquires, and our ability to effectively and efficiently integrate these acquired companies and products into our operations; the risks, uncertainties and costs of litigation in which MPS is involved; the outcome of any upcoming trials, hearings, motions and appeals; the adverse impact on our financial performance if its tax and litigation provisions are inadequate; our ability to effectively manage our growth and attract and retain qualified personnel; the effect of epidemics and pandemics on the global economy and on our business; the risks associated with the financial market, economy and geopolitical uncertainties, including the recent collapse of certain banks in the U.S. and elsewhere and the Russia-Ukraine and Middle East conflicts; our ability to adequately remediate our material weakness; and other important risk factors identified under the caption "Risk Factors" and elsewhere in our Securities and Exchange Commission ("SEC") filings, including, but not limited to, our Annual Report on Form 10-K filed with the SEC on February 29, 2024. MPS assumes no obligation to update the information in this earnings commentary or in the accompanying webinar.

Non-GAAP Financial Measures

This CFO Commentary contains references to certain non-GAAP financial measures. Non-GAAP net income, non-GAAP net income per share, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP other income, net, non-GAAP operating income and non-GAAP income before income taxes differ from net income, net income per share, gross margin, operating expenses, other income, net, operating income and income before income taxes determined in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). Non-GAAP net income and non-GAAP net income per share exclude the effect of stock-based compensation and related expenses, which include stock-based compensation expense and employer payroll taxes in relation to the stock-based compensation, net deferred compensation plan expense, amortization of acquisition-related intangible assets and related tax effects. Non-GAAP gross margin excludes the effect of stock-based compensation and related expenses, amortization of acquisition-related intangible assets and deferred compensation plan expense. Non-GAAP operating expenses exclude the effect of stock-based compensation and related expenses, amortization of acquisition-related intangible assets and deferred compensation plan expense. Non-GAAP operating income excludes the effect of stock-based compensation and related expenses, amortization of acquisition-related intangible assets and deferred compensation plan expense. Non-GAAP other income, net excludes the effect of deferred compensation plan income. Non-GAAP income before income taxes excludes the effect of stock-based compensation and related expenses, amortization of acquisition-related intangible assets and net deferred compensation plan expense. Projected non-GAAP gross margin excludes the effect of stock-based compensation and related expenses, and amortization of acquisition-related intangible assets. Projected non-GAAP operating expenses exclude the effect of stock-based compensation and related expenses. 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. A schedule reconciling non-GAAP financial measures is included at the end of this press release. MPS utilizes both GAAP and non-GAAP financial measures to assess what it believes to be its core operating performance and to evaluate and manage its internal business and assist in making financial operating decisions. MPS believes that the inclusion of non-GAAP financial measures, together with GAAP measures, provides investors with an alternative presentation useful to investors’ understanding of MPS’s core operating results and trends. Additionally, MPS believes that the inclusion of non-GAAP measures, together with GAAP measures, provides investors with an additional dimension of comparability to similar companies. However, investors should be aware that non-GAAP financial measures utilized by other companies are not likely to be comparable in most cases to the non-GAAP financial measures used by MPS.

RECONCILIATION OF NET INCOME TO NON-GAAP NET INCOME

(Unaudited, in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income	\$ 100,366	\$ 99,504	\$ 192,907	\$ 209,306
Adjustments to reconcile net income to non-GAAP net income:				
Stock-based compensation and related expenses*	52,704	37,992	104,473	75,001
Amortization of acquisition-related intangible assets	372	33	663	66
Deferred compensation plan expense, net	106	260	153	511
Tax effect	1,528	(280)	(5,628)	(1,367)
Non-GAAP net income	<u>\$ 155,076</u>	<u>\$ 137,509</u>	<u>\$ 292,568</u>	<u>\$ 283,517</u>
Non-GAAP net income per share:				
Basic	\$ 3.19	\$ 2.90	\$ 6.01	\$ 5.99
Diluted	\$ 3.17	\$ 2.82	\$ 5.98	\$ 5.82
Shares used in the calculation of non-GAAP net income per share:				
Basic	48,687	47,489	48,660	47,361
Diluted	48,945	48,756	48,935	48,705

*Prior periods exclude stock-based compensation related employer payroll taxes from non-GAAP measures due to immateriality.

RECONCILIATION OF GROSS MARGIN TO NON-GAAP GROSS MARGIN

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Gross profit	\$ 280,578	\$ 247,675	\$ 533,019	\$ 506,455
Gross margin	55.3%	56.1%	55.2%	56.8%
Adjustments to reconcile gross profit to non-GAAP gross profit:				
Stock-based compensation and related expenses*	1,635	1,150	3,535	2,297
Amortization of acquisition-related intangible assets	339	-	597	-
Deferred compensation plan expense	100	280	540	460
Non-GAAP gross profit	<u>\$ 282,652</u>	<u>\$ 249,105</u>	<u>\$ 537,691</u>	<u>\$ 509,212</u>
Non-GAAP gross margin	55.7%	56.5%	55.7%	57.1%

*Prior periods exclude stock-based compensation related employer payroll taxes from non-GAAP measures due to immateriality.

RECONCILIATION OF OPERATING EXPENSES TO NON-GAAP OPERATING EXPENSES

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Total operating expenses	\$ 164,042	\$ 135,350	\$ 320,996	\$ 269,854
Adjustments to reconcile total operating expenses to non-GAAP total operating expenses:				
Stock-based compensation and related expenses*	(51,069)	(36,842)	(100,938)	(72,704)
Amortization of acquisition-related intangible assets	(33)	(33)	(66)	(66)
Deferred compensation plan expense	(1,273)	(2,469)	(4,899)	(5,073)
Non-GAAP operating expenses	<u>\$ 111,667</u>	<u>\$ 96,006</u>	<u>\$ 215,093</u>	<u>\$ 192,011</u>

*Prior periods exclude stock-based compensation related employer payroll taxes from non-GAAP measures due to immateriality.

RECONCILIATION OF OPERATING INCOME TO NON-GAAP OPERATING INCOME

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Total operating income	\$ 116,536	\$ 112,325	\$ 212,023	\$ 236,601
Adjustments to reconcile total operating income to non-GAAP total operating income:				
Stock-based compensation and related expenses*	52,704	37,992	104,473	75,001
Amortization of acquisition-related intangible assets	372	33	663	66
Deferred compensation plan expense	1,373	2,748	5,439	5,533
Non-GAAP operating income	<u>\$ 170,985</u>	<u>\$ 153,098</u>	<u>\$ 322,598</u>	<u>\$ 317,201</u>

*Prior periods exclude stock-based compensation related employer payroll taxes from non-GAAP measures due to immateriality.

RECONCILIATION OF OTHER INCOME, NET, TO NON-GAAP OTHER INCOME, NET

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Total other income, net	\$ 7,512	\$ 6,543	\$ 17,052	\$ 11,840
Adjustments to reconcile other income, net to non-GAAP other income, net:				
Deferred compensation plan income	(1,266)	(2,488)	(5,285)	(5,022)
Non-GAAP other income, net	<u>\$ 6,246</u>	<u>\$ 4,055</u>	<u>\$ 11,767</u>	<u>\$ 6,818</u>

RECONCILIATION OF INCOME BEFORE INCOME TAXES TO NON-GAAP INCOME BEFORE INCOME TAXES

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Total income before income taxes	\$ 124,048	\$ 118,868	\$ 229,075	\$ 248,441
Adjustments to reconcile income before income taxes to non-GAAP income before income taxes:				
Stock-based compensation and related expenses*	52,704	37,992	104,473	75,001
Amortization of acquisition-related intangible assets	372	33	663	66
Deferred compensation plan expense, net	106	260	153	511
Non-GAAP income before income taxes	<u>\$ 177,230</u>	<u>\$ 157,153</u>	<u>\$ 334,364</u>	<u>\$ 324,019</u>

*Prior periods exclude stock-based compensation related employer payroll taxes from non-GAAP measures due to immateriality.

2024 THIRD QUARTER OUTLOOK
RECONCILIATION OF GROSS MARGIN TO NON-GAAP GROSS MARGIN
(Unaudited)

	Three Months Ending September 30, 2024	
	Low	High
Gross margin	55.2%	55.8%
Adjustment to reconcile gross margin to non-GAAP gross margin:		
Stock-based compensation and other expenses	0.3%	0.3%
Non-GAAP gross margin	<u>55.5%</u>	<u>56.1%</u>

RECONCILIATION OF OPERATING EXPENSES TO NON-GAAP OPERATING EXPENSES
(Unaudited, in thousands)

	Three Months Ending September 30, 2024	
	Low	High
Operating expenses	\$ 160,100	\$ 164,100
Adjustments to reconcile operating expenses to non-GAAP operating expenses:		
Stock-based compensation and other expenses	(41,800)	(43,800)
Non-GAAP operating expenses	<u>\$ 118,300</u>	<u>\$ 120,300</u>