Navitas Semiconductor (NVTS) / 9 May 24 / 2024 Q1 Earnings call transcript

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Operator

Thank you for standing by. My name is Benjamin, and I will be your conference operator today. At this time, I would like to welcome everyone to Navitas Semiconductor First Quarter 2024 Results Conference Call. All lines have been pleased with you to prevent any background noise. [Operator Instructions] I would like to turn the call over to Stephen Oliver, Vice President of Investor Relations. Please go ahead.

Stephen Oliver

Good afternoon, everyone. I'm Stephen Oliver, Vice President of Investor Relations. Thank you for joining Navitas Semiconductor's First Quarter 2024 Results Conference Call. I'm joined today by Eugene Sheridan, our Chairman, President, CEO and Co-Founder; and Janet Chou, EVP, CFO and Treasurer. A replay of this webcast will be available on our website approximately 1 hour following this conference call, and the recorded webcast will be available for approximately 30 days following the call.

Additional information related to our business is also posted on the Investor Relations section of our website.

Our earnings release includes non-GAAP financial measures. Reconciliations of these non-GAAP financial measures with the most directly comparable GAAP measures are included in our first quarter earnings release and also posted on our website in the Investor Relations section. In this conference call, we will make forward-looking statements about future events or about the future financial performance of Navitas, including acquisitions.

You can identify these statements by words like we expect or we believe or similar terms. We wish to caution you that such forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ materially from expectations expressed in our forward-looking statements. Important factors that can affect Navitas's business, including factors that could cause actual results to differ from our forward-looking statements are described in our earnings release. Please also refer to the Risk Factors sections in our most recent 10-K and 10-Qs.

Our estimates or other forward-looking statements may change, and Navitas assumes no obligation to update forward-looking statements to reflect actual results, changed assumptions or other events that may except as required by law. And now over to Gene Sheridan, CEO.

Eugene Sheridan

Thanks, Steve, and thanks to all of you for joining us today. I'm pleased to announce Q1 revenue of $23.2 million, which reflects 73% year-on-year growth. These results reflect continued market leadership with our GaN technology displacing silicon in a BTD mobile scarcer market, but also expansion into home appliance and AI-based data centers with continuing shipments of our leading-edge Genetic technology into the industrial, EV, solar and energy storage segments.

Let me give further specifics in each of our target markets. In data centers, AI is driving an unprecedented and accelerated increase in power requirements. Traditional data center processes required only 300 to 400 watts each last year, while NVIDIA's latest generation demanded 700 box and now the recently announced Blackwell chipset requires well over 1,000 lots. This 300% increase in power in just 18 months, in combination with the EU driven titanium standard that requires a 96% minimum energy efficiency creates a very big challenge for our power supply customers and a very big opportunity for Navitas. In the last 6 months, we have stepped up to that challenge, enabling server power supplies to increase from 3.2 kilowatts and 96% efficiency to 4.5 kilowatts and 97% efficiency, and now we are well on our way to 8 to 10 kilowatts at 97% to be delivered to our customers later this year. These advances are attributable to our leading-edge can safe technology, combined with our industry-leading Gen3 fast silicon carbide and our unique data center system design capability.

We are pleased to announce 3 major design wins at some of the world's largest power supplied companies.

Taken in combination with over 30 customer projects now in development, in the coming quarters, we expect to enable GaN-based data centers with AWS, Azure, Google, Super Micro, Inspur and Baidu. In total, we anticipate multiple millions of revenue this year and $10 million to $20 million in 2025, all being accelerated by these recent AI developments, which we expect to continue for years, if not decades to come. In EV, we are seeing a significant expansion in our customer pipeline, given strong penetration into mainstream passenger battery EVs and also plug-in hybrids, commercial EVs and even fuel cell hydrogen clean industry cars.

Our EV system design team originally created a 6.6 kilowatt onboard charger platform, which has driven significant customer adoption. Recently, we've launched a 22-kilowatt OBC platform that enables 3x faster charging, while delivering double the power density up to 30% greater energy savings and 40% lighter weight relative to comparable solutions on the market. These systems capabilities are once again enabled by a combination of our Gen-3 fast and silicon carbide and our Gen-3 industry-leading technology. We anticipate these platforms will drive considerable new revenues with additional silicon carbide customer projects ramping in the first half of '25 and again, EV adoption on track to ramp in the second half of '25. In total, we are now engaged with over 160 EV-related customer projects across all major regions, which are expected to drive tens of millions of sales in 2025, and these projects have already increased our total EV pipeline by over 50% since we reported our $400 million pipeline in December. In the appliance and industrial segments, we are also making excellent progress.

Our latest motor optimized Dansie Carige now has over 15 customer projects in development with major wins at a European leader in [indiscernible] that will launch at the end of this year, a Tier 1 U.S.-based dishwasher supplier and 2 of the top European leaders in pumps and motors, which will all launch in 2025. All told, GaNSense's total pipeline is now over $100 million in home appliance. In more industrial applications, our latest Gen 3 fast GeneSiC technology are achieving rapid adoption in over 25 customer developments with over $150 million pipeline potential. Combining these together with other opportunities, our appliance and industrial pipeline has grown significantly beyond $360 million that we reported in December. In solar and energy storage, we are seeing signs of recovery with 6 new wins across U.S., Europe and Asia for solar optimizers, microinverters, string inverters and energy storage applications, all expected to start ramping in 2025. In particular, a major microinverter leader has publicly committed to a major transition to GaN double ramp in the first half of '25, which we expect represents tens of millions in annual revenue potential. In total, our solar and energy storage pipeline has also increased significantly beyond the $250 million we reported in December. In mobile and consumer markets, we continue to see strength in all major mobile OEMs across smartphone, tablet and notebooks, continue to adopt GaN to repay silicon in a growing percentage of their chargers, especially those at 65 lots and above a sweet spot for organics. In Q1, we added over 20 new fast chargers into production, taking the total release customer products to over 450. This includes 10 of the across mobile OEMs across smartphone and notebooks. Notably, Xiaomi launched another 2 smartphone models, the Mi 14 Ultra and the CIVI 4Pro using our Gen-4, Gen-3 support ultra-fast charging. And Lenovo launched the ThinkBook 170W desktop 5-port charger and docker station with Gen 4, GanSense.

Finally, I'm excited to announce that all new GaN IC family, we call GanSlim. GanSlim offers all the effective features of our existing GaNSense technology, such as Integrated Drive and losses crusting, but also slims down the solution by integrating additional external components, further simplifying the system design and reducing customer manufacturing costs. GaNSlim is a major step forward that could increase our GaN TAM by enabling lower system costs compared to silicon design for many applications. GaNSlim targets applications under 500 lots across mobile, consumer and home appliances.

While the formal product launch will not occur until June, we started sampling just 2 months ago and already have over 20 customer projects in development and added over $20 million to our pipeline. We anticipate over $10 million in new revenue for 2025 from our GaNSlim product line. Overall, we have not yet observed any signing of butter market recovery in the second half of the year, and this may translate to a more moderated growth in 2024. Nonetheless, we're very pleased with the significant success and adoption of our latest industry-leading technologies, GaNSense, GaN power ICs, Gen-3 fast silicon carbide and our newest canceling family, all of which are driving important increases in our customer pipeline that has increased nearly 30% from December to $1.6 billion. Much of that existing opportunity and pipeline growth is coming from new 2025 production programs across all major regions and markets, which is increasing our confidence for strong Devers growth for 2025 and beyond. With that, let me turn it over to our CFO, Janet Chou, to discuss the financials.

Janet Tao Chou

Thank you, Gene. In my comments today, I will first review our first quarter financial results, and I'll take you through our outlook for the second quarter. Revenue in the first quarter of 2024 grew 74% year-over-year to $23.2 million, slightly above the midpoint of our guidance range.

While we are experiencing similar macroeconomic factors as others, in certain of our end markets, such as EV, industrial and solar, our mobile business was strong in the first quarter, demonstrating the benefits of our smaller, faster, more energy-efficient technology as we continue to gain significant traction in mobile and consumer charging applications.

Before addressing expenses, I'd like to refer you to the GAAP to non-GAAP reconciliations in our press release earlier today. In the rest of my commentary, I will refer to non-GAAP expense measures. Gross margin in the first quarter was 41.1%, the same as the first quarter of 2023 due to mobile market product mix as we continue to see strength in that part of our business. Total operating expenses for the first quarter were $21.3 million, comprised of SG&A expenses of $8.5 million and R&D expenses of $12.9 million. This expense increase of 20% year-over-year is much slower than our revenue growth as we sharpen our focus on profitability while continuing to emphasize investments in new products, technologies and emerging markets. The sequential growth was primarily driven by higher payroll taxes and annual salary increases.

As expected, we sequentially increased our R&D to support significant new product development like Gasoline and many others plan to launch in this year and next. Putting all this together, the loss from operations for the first quarter of 2024 was $11.8 million compared to a loss from operations of $12.3 million in the first quarter of 2023.

Our weighted average share count for the first quarter was 180 million shares.

Turning to the balance sheet. It remains very strong with high levels of liquidity. Cash and cash equivalents at quarter end were $129.7 million, and we continue to carry no debt. Accounts receivable declined to $22.2 million compared to $25.9 million in the prior quarter. Inventory increased to $33.2 million compared to $23.2 million in the prior quarter. The inventory increase reflects additional strategic purchases of silicon carbide materials and increases to support major product launches and customer program runs later in the year.

Moving on to guidance for the second quarter. We currently expect revenues of $20 million, plus or minus $500,000. At the midpoint, this represents year-over-year growth of more than 10% compared to the $18.1 million we recorded in the second quarter of 2023. And the guidance is down sequentially from the first quarter due to decreased demand in our EV, solar and industrial markets, partially offset by projected continued strength in the mobile market and initial ramp for data centers. Gross margin for the second quarter is expected to be approximately 40%, plus or minus 50 basis points as our mix continues to lean more towards the mobile market in the near term.

As we move through the year, we expect margin improvement will align with growth in higher-margin markets. In total, our non-GAAP operating expenses in the second quarter are expected to be approximately $21.5 million, and this excludes stock-based compensation and amortization of intangible assets.

Although we will continue to invest in growth-oriented initiatives, particularly in R&D, we expect growth in operating expense dollars will be modest during 2024. In closing, while we are not new to some of the same macro trends seen by others, we continue to deliver growth that significantly outpaces the overall power semiconductor market.

We are very pleased with the customer reception and adoption of our new products, expansion of our customer pipeline and the outlook for much faster growth as some of our end markets recover. Operator, let's begin the Q&A session.

Operator

We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Kevin Cassidy with Rosenblatt Securities.

Kevin Cassidy

Yes. Congratulations on the great results. And also, congratulations, Gene for a well-deserved nomination as a finalist for entrepreneur of the year in L.A. Congratulations. It's exciting news that you're showing about data center. And we did -- we hosted a tour of a CoreSite data center and the clear message from the management team was they need more power. And it looks like there's a definite demand from data centers and pretty exciting that you're winning the designs now and you're going to start seeing revenue. Is this revenue going to be accretive to gross margin right away? Or does it take a while to get the volumes up to get to gross margins that would be above corporate average?

Eugene Sheridan

Yes. Good question, Kevin. And it's accretive straightaway running above the average, I think, typical of any of the industrial markets, especially with the new products like GaNSafe and Generation 3 fast cellincarbade, and we expect them to be accretive on gross margin straightaway. And as I mentioned in my remarks, a few million dollars of ramping already started this first half, but ramping more significantly in the second half and $10 million to $20 million anticipated at this point for next year.

Kevin Cassidy

Okay. Great. And can you give us a ballpark for the dollar content, like if there's a dollar content per watt or per kilowatt for Navitas?

Eugene Sheridan

Yes, it's going to depend a lot per power, as you said. But depending upon power level, you could probably assume $15 to $50. It's in that kind of range, and it's going up as the power level goes up, our design center delivered a 3.2 kilowatt last year, more recently, 4.5 kilowatts. We're trying to push that to 5.5-kilowatt customers. And now we're working on 8 to 10 kilowatts. With each of those, that content going up and up on the 8 to 10 is probably in that $50 range -- $40 range.

Operator

Next question comes from the line of Jon Tanwanteng CGS Securities.

Jonathan Tanwanteng

It's actually Charlie trade for John.

Just a couple of questions for you. When do you expect to see a normalization in demand is 40% to 50% revenue growth still possible this year?

Eugene Sheridan

Yes. We're seeing, obviously, continued softness in Q2. It's a good chance Q2 is a bottom. It's a little early to call as we don't have perfect visibility on Q3. But I think the general consensus in the industry from our peers who are seeing a lot more dramatic degradation at say, revenue than we are in the first half, is that by summer to turn.

So we're looking forward to those signs to confirm growth. But right now, as we said in our remarks, we would be a little bit more moderate in our growth expectations compared to the 40% to 50% we indicated last quarter.

Jonathan Tanwanteng

Great. And just one more question for me. Have pipeline opportunities identified in December converted to the designs yet or orders at the expected rate.

Eugene Sheridan

Yes. It varies by market.

Of course, mobile and consumers tend to be shorter term. And you can see those adoption rates happened faster.

For some of the other markets, they're still developing, data center ramping later this year. I did mention a large percentage of the $1.6 billion that we've added to it since 1.25 and is already there are concentrated in 25 programs, which is why we're so bullish across each of the markets in the conversion rate and indicated tens of millions of new revenue in most of the key markets that we targeted.

Operator

Your next question comes from the line of Jack Egan with Charter Equity Research.

Jack Egan

So you mentioned that some automotive weakness might be contributing to lower near-term growth, but I thought automotive was more kind of on the long-term spectrum and that it wouldn't really kick in for a while.

So is that more reflective of actual fewer shipments near term? Or is it more just customers kind of slowing their development process?

Eugene Sheridan

Yes. No, great question, Jack. And it's definitely -- today, we're only shipping silicon carbide into EV.

So we have ongoing production there. And with the slower growth rates recognized in the overall industry that traded some pockets of inventory, some slowdown in the production pull-through from customers. With that said, we haven't seen any delays in new programs. We announced the joint labs with Shine and Geely. Those guys are shipping into major OEMs like Hyundai, BYD, Volvo, Honda, those programs are all tracking for 25 ramp. We're also still on track for GaN to go into EVs for the first time in the second half of '25.

So we don't see much slowdown at all in the overall pipeline. It's actually growing probably the biggest. We highlighted 50% growth, so from $400 million to $600 million, we don't see a slowdown in the programs, but we certainly feel some slowdown in the short term just on the production shift through.

Jack Egan

Got it.

Okay. And then just sticking on the automotive side.

This quarter and last quarter, you've heard quite a few companies in the automotive supply chain, at least on the semiconductor side. They've talked about sentiment kind of shifting away from fully electric vehicles and a bit more towards hybrids.

And so I understand that, that long term, that would probably be a negative development for silicon carbide since I don't think you really need or really can use silicon carbide and the traction of a hybrid. But for some of the smaller, lower power slots like the DC/DC converter, is there still an opportunity for GaN or stick for hybrids?

Eugene Sheridan

Yes, that's right. We observed the same trend.

While there's a bit of a slowdown on battery EV in the near term, we've seen plug-in hybrid pickup. Commercial EV still going strong, and I mentioned those in my remarks. The content is pretty solid. Battery EV can be up to $400, $500 of GaN or silicon carbide and wideband depth content. But the plug-in hybrid can also depending upon the configuration, they can be $200 to $300.

So it's very significant, albeit smaller, it's very significant, and we've got a number of nice projects in the pipeline that we added.

Operator

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

Quinn Bolton

Is Nick [indiscernible] on for Quinn Bolton. Can you talk more about your appliance segment. Any details on the performance and be in the quarter and you guide? Are you still on track to hit the $10 million per year run rate exiting the year?

Eugene Sheridan

Yes, good questions. Thanks for focusing on that. Appliance is maybe not as sort of exciting or sexy as some of the other segments, but really promising progress. I had it at 4 major wins just in the last quarter, one of which includes that leading European hair care product that's still on track to the end of the year, and that's expected to be $10 million a year as it ramps starting this year and throughout next year, but we also added the dishwasher, a leading dishwasher name. These guys don't want us to release the name yet. We'll release them as soon as we on, but you can probably guess at some of these and 2 really top pump and motor leaders in Europe, not surprisingly, Europe tends to be leading in high energy efficiency home appliances.

So that business actually is pretty stable. We didn't highlight it too much in the short term, but we did say going into Q2, it's pretty stable. And then I think we're going to see a nice growth towards the end of the year and definitely next year. That pipeline, by the way, was $360 million in December and has grown since then.

So we're pretty bullish on home appliance and industrial markets.

Quinn Bolton

And for my follow-up, gross margin guide come in just a little bit weaker. Is that entirely driven by mix driven by the mobile being a little bit better like you talked about in the comments.

Janet Tao Chou

Thank you for your question.

You're absolutely right.

Our gross margin is heavily dependent on mix. We see very strong momentum going on in the mobile space. And -- but higher mix in mobile actually is margin dilutive. We do anticipate margin expansion once we see growth in higher-margin markets like EV, industrial and data center.

Richard Gould

I just wanted to drill into the customer pipeline a little bit more. If I recall about a year ago, I think that pipeline was a few hundred million. And then into the summer, it got up to, I think, $760 million. And then by the year December 12 meeting Investor Meeting in Torrance, California, it was $1.2 billion. And I think last quarter, you said it was north of that. And now at $1.6 billion, it's really pretty remarkable. I was wondering if you could give a little bit of detail of how you scrub that and if you have any sense of what the conversion is ultimately into revenues?

Eugene Sheridan

Yes. Good question. Thanks, Richard, for bringing it up.

So first of all, on definition, pipeline has a few important criteria. One is that it's a valid committed production program. There's a lot of R&D going on out there, especially on gallium nitride and slicerbid.

So we always scrub it to make sure it's really a valid committed program. Number two, we see a good technical fit for what they require for GaN or silicon carbide or for our product to make sure the technical fit is there. And then third is the value prop and a strong opportunity and motivation from the customer to use the product. It's not confirmed design wins. It's not a contract, but we consider those to be qualified opportunities. And we track unqualified ones, but we don't report them in the $1.6 billion. They have to meet that. And then within that $1.6 billion of qualified opportunities, we're tracking them by stage as they go through evaluations, system design, design validation, preproduction and then into production.

In terms of conversion, it's a little too early to call.

I think on mobile, where we've seen mobile our conversion rates have been pretty high. 30% or higher, sometimes 40% on the other markets, which are really just forming some of those take 2 years to come to market or 18 months or 36 months, we're still seeing that roll out.

So we'll be able to judge conversion rates a lot better in data center solar than EV later this year and into next year.

Richard Gould

And then when you -- of the $1.6 billion, I guess you put that $1.6 billion in different buckets. One bucket would be purchase orders and production. And then it goes from there all the way to perhaps just some new program that's just kind of been talked about, but you haven't really -- no, I guess if it's committed, it will have to be committed to be part of the qualified, right?

Eugene Sheridan

No. qualified meets a criteria set.

So it's committed to production program, not committed to us, but the customer is committed to going to production.

We have a good technical fit.

We have a strong value prop and high interest to use our products. But let me clarify, too. It's a development pipeline.

So once the products go to production, we actually remove them from the pipeline.

So it's from the first qualification stage, committed production with high interest in technical fit to our product through to preproduction. Once it goes to production, we then count that in our production forecast.

So for that number to grow, the number of additional programs going into the pipeline needs to exceed those products that are going from the pipeline into production.

Richard Gould

Okay. Yes, that's remarkable.

Eugene Sheridan

One other clarification too, Richard, it's a lifetime estimate.

So that's not an annual revenue. The lifetime of these programs, we're trying to be super conservative.

Some could in theory, last 5 or 10 years, but we don't want to be too optimistic.

So we generally assume about a 3- or 4-year lifetime for the more industrial markets and mobile consumer, we assume they run for about 1 year.

So they have to factor in the lifetime of the product when you're thinking about how that might translate into our revenue in future periods.

Operator

Your next question comes from the line of Richard Shannon with Craig-Hallum.

Richard Shannon

Maybe I'll focus on one of the markets that's doing relatively better right now being in the mobile space here.

I think a couple of quarters ago or maybe it was more than 2.

You talked about a couple of your target customers committing to like 30% usage of GaN here with higher levels of power. In your conversations you're having with both aftermarket guys and I guess, more importantly on the OEM side here, what are you seeing in terms of commitment to ramp with the higher the 65 watt and above? I mean, I can tell you from my perspective, having multiple Navitas gifted chargers in my possession looking at what of them I hear, I mean, the value proposition is so high. It seems like it'd be a fairly fast conversion.

So what are you getting a sense in terms of those conversations and what's their pushback or delay in committing to something like that?

Eugene Sheridan

Yes. No, those are great observations, and thanks for appreciating the chargers as everybody usually does.

So -- but you're right, and you know it well, right? 30 watts and below is relatively slow charging again doesn't bring that much of a value profit is already a pretty small keep.

You get into 50 60 watts. That's pretty fast charging for laptop and really fast for a smartphone.

You've got to 100 watts, now you can charge multiple devices super fast. And that's -- so as you go up in power, that leads you right into the sweet spot of organic technology, while also increasing the GaN content from one chip to 2 chips or in many cases, our [indiscenrnible], which is one of our most advanced products and one of the things I highlighted.

So we continue to see the trends to faster and faster charging.

I think it's an obviously compelling thing. Consumers don't change overnight. -- but Xiaomi and OPO are great examples. The Chinese tend to be early adopters and have been the most aggressive. Most of those products I mentioned about the M14 Ultra, the CV4 Pro, these are all 100 watt and up, really powerful products, super fast charging. We're seeing those same trends out of the other mobile leaders in the different regions, albeit at a bit slower pace. But I think what you're seeing from China is what you're going to see from the others. A lot of it actually comes down to battery technology. The battery technology needs to safely accept in your phone 30 watts or 65 was or 100 watts.

So it's not as simple as just switching from a 30-watt charger to 100 watts.

You do need to advance that battery technology. The Chinese and others are certainly proving that you can safely accept 100 watts or more, and that's 0 to 100% charge in under 15 minutes.

So they're setting the example.

I think it's just a matter of time.

You'll see that same trend. And we're already seeing it with Samsung is now up to 45 watts in their fast charger, for example, using our GaN technology.

So those trends are solid and they're coming, and that's going to lead them right into our NIC strength.

Richard Shannon

Okay. I guess I didn't realize about the batteries.

Second question is just kind of the general competitive dynamics in both the material systems here. We've seen some more suppliers getting into the GaN space and increasing capacity, looking to be more aggressive. And then in the silicon carbide space, we've obviously seen a slowdown here.

And so I just want to get any sense of any change in competitive dynamics pricing, et cetera, that you've seen here in the last 6 months in either of those materials.

Eugene Sheridan

Yes.As much as if you take GaN as much as there are various start-ups that pop up. I have to admit it doesn't feel like it's changed too much. It's primarily Navitas we see Infineon and Infineon GaN systems. We see power integrations. We see Annoscience on the low end, and it trails off pretty quickly from there.

So we haven't seen any change to ASP degradation or anything sort of unusual there. But surprisingly, not much of a change in the competitive landscape.

So that in carbide, you still have the big players, of course, the IDMs, as you might call them. We're a small single-digit market share player with a lot of upside, just 1% or 2% market share gains for us can really matter. Last year, things are really tight.

So there's almost no ASP degradation. This year, I'd say supply and demand with the softening of demand and some increase in supply. I'd say we now have sort of normal ASP degradation. But our focus tends to not be on -- obviously, we're not a price leader, we're not going part to part. We're very focused on system value. In many cases, we're designing the system or co-designing the system for the customer, with the customer, especially in the data center space and the EV space.

Operator

[Operator Instructions] And your next question comes from the line of Jon Tanwanteng with CGS Securities.

Jonathan Tanwanteng

Just one quick follow-up. But can you provide us an update on cash burn when you think you might achieve breakeven?

Janet Tao Chou

We think we can achieve operating margin level breakeven when revenue reached $50 million to $55 million.

In addition to driving profitable growth as the new CFO on board, I'm shaping focused on driving working capital efficiency and improve process and systems. We remain very confident with our long-term target financial model, which we laid out on Investor Day.

Operator

We have no further questions at this time. This concludes today's conference. Thank you for participating.

You may now disconnect.

For further comments or questions, please email iratnavitassemi.navitafsemi.com.