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# Power Integrations, Inc. (POWI)

Q2 2020 Earnings Call

## CORPORATE PARTICIPANTS

### Joe Shiffler

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### Sandeep Nayyar

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Integrations, Inc.*

### Balu Balakrishnan

*President, Chief Executive Officer & Director, Power  
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## OTHER PARTICIPANTS

### Tore Egil Svanberg

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### David Williams

*Analyst, Loop Capital Markets LLC*

### Ross Seymore

*Analyst, Deutsche Bank Securities, Inc.*

### Gus Richard

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### David Haberle

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to the Power Integrations Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Joe Shiffler, Director of Investor Relations. Please go ahead, sir.

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### Joe Shiffler

*Director-Investor Relations & Corporate Communications, Power Integrations, Inc.*

Thanks, Ian. Good afternoon. Thanks everyone, for joining us. With me on the call today are Balu Balakrishnan, President and CEO of Power Integrations; and Sandeep Nayyar, our Chief Financial Officer. Our discussion today, including the Q&A session, will include forward-looking statements denoted by words like will, would, believe, should, expect, outlook, forecast, and similar expressions that look toward future events or performance. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied. Such risks and uncertainties are discussed in today's press release and in our most recent Form 10-K filed with the SEC on February 7, 2020.

During this call, we will refer to financial measures not calculated according to generally accepted accounting principles, non-GAAP measures that excludes stock-based compensation expenses, amortization of acquisition-related intangible assets, and the tax effects of these items. A reconciliation of non-GAAP measures to our GAAP results is included in our press release. Finally, this call is the property of Power Integrations and any recording or rebroadcast is expressly prohibited without the written consent of Power Integrations.

Now, I'll turn the call over to Balu.

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## Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

Thanks, Joe, and good afternoon. Second quarter revenues were \$106.8 million, in line with our guidance, and up 4% year-over-year in spite of a challenging demand environment. The year-over-year growth was driven by [the] communications and industrial categories. Industrial grew high single-digits year-over-year and was our largest revenue category in the quarter at 35% of sales. We saw a continuation of the recovery in broad-based industrial applications, as well as incremental growth across a diverse range of verticals where trends like home and building automation [and] electrification are creating opportunities for our products.

On the automation side, we are seeing growth in USB wall outlets, smart meters and other IoT applications such as networked thermostats and door locks, where high reliability, compact size, low standby power consumption are critical factors. Meanwhile, electrification is creating opportunities in applications like lawn equipment, vacuum cleaners and personal transportation such as scooters and e-bikes, where rechargeable batteries are replacing traditional power sources. Growth in these areas was offset somewhat by lower revenues from high power due to softer demand in energy exploration and a slowdown in infrastructure projects due to the pandemic. However, high power has its own attractive verticals with strong long-term growth prospects, including renewable energy, long distance DC transmission and electric transportation.

Our gate drivers are in use today in electric buses and locomotives, and are in testing at several automotive OEMs and Tier 1 suppliers for drivetrain and charging applications in next-generation electric cars. Several of our SCALE-iDriver ICs are automotive qualified as we have discussed on prior conference calls. We are also aggressively pursuing low power opportunities in electric cars which can contain as many as 10 power supplies to drive various subsystems from main high-voltage battery. Our InnoSwitch3 and LinkSwitch-TN2 ICs and our Qspeed diodes have been qualified for automotive use and we are building a pipeline of design opportunities that should begin to generate revenues in 2021.

Turning to the communications category, revenues grew more than 20% year-over-year in Q2 driven by the continued adoption of fast chargers for mobile devices. We believe we are the leading supplier of power conversion ICs for smartphone chargers as our InnoSwitch products continue to win a sizable share of designs spanning a wide range of power levels, form factors and customers, including both inbox and aftermarket designs. We won more than a dozen new inbox designs in Q2 with power levels ranging from 15 to 50 watts. End users are becoming increasingly aware of differences in charging speed, and the OEMs are steadily rolling out new higher power charger models.

We expect this trend to continue as 5G devices incorporate larger batteries to support increased consumption of video and other power-heavy functionality. While inbox volume chargers account for vast majority of the market today, aftermarket brands are proliferating rapidly, thanks to USB PD technology. These new designs commonly feature power levels as high as 65 watts, and are capable of powering nearly any mobile device, including notebooks. Many aftermarket chargers also include two or even three USB outputs to enable charging of multiple devices. Such designs dramatically increase our dollar content since we typically sell one chip for each USB port.

Our GaN-based InnoSwitch devices are proving successful in aftermarket chargers, thanks to their exceptional efficiency which is crucial to achieving small form factors. Our GaN technology is also being adopted in fixed USB wall outlets installed alongside AC outlets. Because space behind the wall is limited, these power supplies must be extremely compact. Limited space also allows for very little heat dissipation, making efficiency a critical factor. Standby consumption is also crucial, since these devices are continuously connected to the AC mains, and would otherwise cause a significant waste of electricity. Clearly, the charging ecosystem for our mobile devices is changing rapidly and gaining in strategic importance, thanks to emerging technologies such as USB PD, GaN and 5G, and Power Integrations is extremely well-positioned to benefit from and drive the continued evolution of the market.

Turning to the consumer category, revenues declined at a double-digit rate year-over-year in Q2, offsetting much of the growth in communications and industrial categories. Appliance sales have been severely impacted by the pandemic and this effect was magnified in Q2 by an inventory correction following strong shipments in the prior quarter. This is especially true in air conditioning where sales fell more than half sequentially in what is typically a peak quarter for this application. We expect consumer revenues to be roughly flat sequentially in Q3 with the inventory situation improving, but demand still affected by the pandemic as well as seasonality in air conditioning.

Longer term, we expect healthy growth from the consumer market driven by growing electronic content in appliances, increasing energy efficiency requirements, demand from the expanding middle class in emerging markets, and the adoption of our BridgeSwitch motor-drive ICs in appliances using brushless DC motors. We also expect GaN to play a significant role in the consumer end market, and have a number of designs in progress for TVs and appliances, as well as notebook chargers and monitors and server standby power supplies in the computing category.

Overall, we remain cautious on the demand environment in light of the economic impact of the pandemic. But we are maintaining an elevated level of inventory to be prepared in the event of a sudden recovery in demand. Considering the long shelf life of our products and the fact that most of our products can be used in a variety of applications, particularly when kept in wafer form, we believe this is a prudent approach to the current situation. In Q3, we expect revenues to increase sequentially driven by continued growth in fast charging. At the midpoint of our revenue range, we would be up slightly on a year-over-year basis in Q3, and up about 8% for the first nine months of the year, which would put us on track to outperform the broader analog industry by a significant margin for the full year.

And now, I'll turn it over to Sandeep.

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## Sandeep Nayyar

*Chief Financial Officer & Vice President-Finance, Power Integrations, Inc.*

Thanks, Balu, and good afternoon. As usual, I will focus my remarks primarily on the non-GAAP results which are reconciled to GAAP in our press release tables. Our Q2 results were on target with revenues of \$106.8 million, down 3% sequentially. Consumer revenues were down more than 25% sequentially with air conditioning and major appliances both down sharply reflecting weaker demand and an inventory correction, as Balu noted. All other revenue categories increased sequentially. Communications revenues were up more than 25% on strength in smartphone chargers as well as residential networking, driven by work from home. The computer category also benefited from work-from-home in addition to normal June quarter seasonality, increasing more than 25% sequentially with strength in desktops and monitors.

Industrial revenues were up low single-digits sequentially with increases coming from broad-based industrial applications as well as high-power battery-operated tools and home automation, which includes IoT connected devices as well as USB charging receptacles. Revenue mix for the quarter was 35% industrial, 31% consumer, 28% communication and 6% computer. That's a decrease of 10 percentage points in consumer from the prior quarter and an increase of 6 percentage points for communication. This shift resulted in lower gross margins with non-GAAP gross margin falling 150 basis points sequentially to 51.1%, in line with our guidance.

Non-GAAP operating expenses were \$34.7 million, roughly flat on a sequential basis. Expenses were moderately below our expectation, driven partly by unanticipated credits and employment incentives in Asia related to the pandemic. Other income for the quarter was \$1.5 million, down from prior quarter due to the lower interest rate environment, which reduced income on cash and investments. The non-GAAP effective tax rate for the quarter was just under 7%, resulting in non-GAAP earnings of \$0.66 per diluted share. Cash and investments on the balance sheet increased by about \$23 million during the quarter driven by operating cash flow of \$36.7 million. The strong Q2 cash flow was driven in part by a decline in accounts receivable due largely to the timing of collections.

Capital expenditures for the quarter were \$10 million. We paid out \$6.3 million in dividends following the dividend increase we announced last quarter and used about \$600,000 for share repurchases. The average price per share on the repurchases during the quarter was \$82 and change. Internal inventories rose by about \$7 million during the quarter, and we had 178 days of inventory on hand at quarter end. We continue to err on the side of higher-than-normal inventories given the long shelf lives of our product and the uncertainty of supply and demand environment in light of the pandemic.

We also prefer to maintain a minimum level of activity at each of our foundries to help maintain capacity though we have slowed wafer starts in light of the weaker demand environment. I expect inventories to gradually begin declining, trending down in Q3 and to return to our target range by second half of 2021. Channel inventories fell slightly during the quarter ending June at 7.3 weeks compared to 7.6 weeks in the prior quarter. Looking ahead to the third quarter, we expect revenues to be in the range of \$115 million plus or minus \$5 million, with the sequential increase driven mainly by the communication category reflecting both seasonality and the ramp of new cell phone designs.

While communications should increase meaningfully as a percentage of revenue, the resulting gross margin pressure will be largely offset by cost improvements. As a result, I expect just a slight reduction in non-GAAP gross margin into a range of 50.5% to 51%. Non-GAAP operating expenses should pick up after lower than expected results in Q2. Specifically, I expect non-GAAP OpEx of around \$36 million for the September quarter. Thanks to reduced litigation spending and belt-tightening measures such as a reduced pace of hiring and savings on travel and events, we are on track for growth of roughly 2% this year in our non-GAAP OpEx. That is in spite of the fact we give normal salary increases in April and have not reduced head count in response to the pandemic.

Other income, which is driven mainly by interest income, will continue to trend down as higher earning securities roll over into lower rate instruments. Specifically, I expect other income to be around \$1 million in Q3. The non-GAAP effective tax rate should remain around 7%. Finally, as noted in our press release, our board has approved a 2:1 stock split in the form of a stock dividend, with one share of common stock to be issued for each outstanding share. The additional shares will be distributed on August 18 to stockholders of record as of August 14. Our quarterly cash dividend, which was \$0.21 per share pre-split, will now be \$0.11 per share, equivalent to \$0.22 on a pre-split basis. At this new level, our quarterly payout will have risen by almost 30% over the past three quarters.

Operator, please open up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes from the line of Tore Svanberg of Stifel. Your line is open.

**Tore Egil Svanberg**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Yes. Thank you. First question for Balu. Balu, you talked a little bit more about automotive, and it does sound like the automotive revenue is going to come in a little bit earlier, because I think in the past you've talked about it being more 2022, but it sounds like you expect to get some revenues already next year.

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Hi, Tore. Well, we will get a little bit of revenue from the low-power products starting, I would say, next year. We will get a tiny revenue this year because we introduced the Qspeed diodes a couple of years ago, and we'll get a fraction of a million this year. But next year onwards, we'll see a gradual increase. But the real revenue, significant revenue, won't happen until 2023 or 2024 when we get into the second-generation drivetrains and chargers and on-board DC to DC converters and so on. So yes, we will get some revenue, but it won't be significant in the next couple of years.

**Tore Egil Svanberg**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Very good. And moving on to communications, you mentioned about a dozen new inbox design wins for fast charging. And I think you said the range was about 15 to 50 watt. Could you elaborate on the mix there? I mean, is it towards one range or the other, and are the most of these phones 5G phones?

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Well, it's a combination. I would say that the center of gravity of the power is used to be around 20 watts. But some of them are going as high as 25 to 30 watts. It's kind of moving up. And on top of that, the fast chargers are not only offered with the high-end phones, including the 5G phones, but they're also using them in medium and low-end phones especially in China. In China, they're really pushing towards faster charging, higher power level, and they're also expanding fast charging to medium-level and low-level phones.

**Tore Egil Svanberg**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Very good. Just one last question on the industrial. You mentioned high power taking a bit of a breather here. Do you have any visibility as to when that business could potentially start growing again?

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

So in terms of the infrastructure-type projects, like renewables and DC transmission lines and the wind turbines and so on – by the way, wind is actually doing well, it's the solar that's a little bit weak now, and DC transmission lines is just delayed. There is no – the programs are still on, but they just seem to be delayed. So I think they will

come back hopefully in the next few months. So in the long run nothing changes. High power market is a very, very long-term market. The projects last many years. So we are not concerned about it. It's just a short term pandemic-driven softness.

**Tore Egil Svanberg**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Very good. Thank you very much.

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Thanks, Tore.

**Operator:** Your next question comes from the line of Ross Seymore of Deutsche Bank. Your line is open.

**Ross Seymore**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi, guys. Thanks for letting me ask a question. I just want to follow up on the industrial side. For the third quarter guide, you gave the color for the comps. It will be up strongly. The consumer is flat. What are you thinking about industrial from a sequential point of view? And if you said it in there and I missed it I apologize.

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Well, industrial will be basically flat. We don't see any significant change in industrial in Q3.

**Ross Seymore**

*Analyst, Deutsche Bank Securities, Inc.*

Q

And then as I look at the business, how are you thinking the percentage of your inbox versus kind of accessories sold separately in the charger market will unfold over the next six to 12 months, and does it really matter to you either way? Is there a difference in profitability or price because those two channels can be different in some ways?

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Yeah. Right now I would say that the aftermarket-type products are probably in the mid single-digit percentage relative to the total inbox. So the inbox basically dominates. But that is changing rapidly. We are seeing lot more aftermarket design wins and the revenues are growing very quickly in that space. As far as the OEMs deciding to move the charger out of the box, I think it really varies a lot from OEM to OEM. For example, the OEMs in China are really using faster charging as a major selling point, and so they like to put it in box because each generation has a significantly higher power and capability. But it's very possible that in the long run, some of them, some of the OEMs may choose to not sell the charger with the box, in which case the consumer has to either have a charger from their past generation phone or they have to buy a new one. In the short term, they have to buy a new one because the older ones are not USB PD compatible or they don't have the fast-charging – they can't charge fast. So we are optimistic that even if they go out of box, the attach rates will be reasonably good. And so there are pluses and minuses. The number of units will come down, obviously, if you go out of a box.



On the other hand, we will have exposure to the entire product line. For example, right now, our attach rate is very small because they're only on the high end, the faster chargers on the high-end phones. If the consumer has to make that decision, even the consumer who buys a low-end phone can buy a faster charger or a higher-power charger for multiple reasons. Most of the low-end phones can handle faster charging, they just don't come with it in box because of cost reasons. So we think that attachment rates could be significant, obviously, not 100%, but it is in the tens of percents, but it applies to the entire product line, not just the high end. So that's the plus of it. The minus, of course, is that the overall unit volume is lower. So it's not clear to us exactly how it's going to impact us, because these higher power chargers are higher ASP, and also some of them are multi-port which means you get two or three times the ASP. So I think there are our pluses and minuses, but this is something we've known for a long time. We've talked about it in the past. And so this is not a surprise to us, and it's not clear how many will actually follow that path.

Ross Seymore

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks for the detailed answer there, Balu. One, I hope, relatively quick one for Sandeep. On the gross margin side, incredibly impressive that the third quarter gross margin is not really going to change sequentially despite the mix. I know you said you're doing some cost cuts, some efficiency gains, et cetera. Any sort of color on – are those huge sustainable cuts? Just a little more color on how you're pulling that off in the gross margin would be great.

Sandeep Nayyar

*Chief Financial Officer & Vice President-Finance, Power Integrations, Inc.*

A

Yeah. It's going to be slightly down, as I guided to 50.5% to 51%, so slightly down because the impact of the communication sector has largely been offset. And even in Q4, I think the mix will kind of be similar to what is in Q3. So I think the 50.5% to 51% non-GAAP will continue into Q4. And for the year, I've been talking nearly for about three or four quarters that approximately 51%, and it's pretty much aligned to what I've been saying for a while.

Ross Seymore

*Analyst, Deutsche Bank Securities, Inc.*

Q

Got it. Thank you.

Sandeep Nayyar

*Chief Financial Officer & Vice President-Finance, Power Integrations, Inc.*

A

And the cost reductions come from assembly and test area.

Ross Seymore

*Analyst, Deutsche Bank Securities, Inc.*

Q

Perfect. Thanks, Sandeep.

**Operator:** Your next question comes from the line of Christopher Rolland of SIG. Your line is open.

David Haberle

*Analyst, Susquehanna Financial Group LLLP*

Q

Hi. David Haberle on behalf of Chris Rolland. Thanks for taking our questions today. I guess first question, since nobody touched on consumer yet, maybe we can talk a bit about the consumer seasonality for the back half of the

year. As I think about the front half, I think you had a similar issue last year where there was an inventory correction, and you kept seeing sell-through kind of better than sell-in, and it sounds like you experienced that same phenomenon here in the second quarter. Maybe you could just talk about what you think for the back half of the year. Is seasonality changing given this is kind of the second year in a row we're working through inventory in the second quarter?

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**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Well, the main reason for the inventory build is because, in the first quarter, they were very concerned about supply chain disruptions, so they ended up buying a lot of products. So there's a little bit of a different reason for inventory build in the first quarter. Having said that, we think that other than the AC, air-conditioning market, the rest of the market will actually recover a little bit in the second half. But because of the seasonality of AC, in Q3, we think that it'll be offset by the AC seasonality, and therefore we are projecting roughly flat revenue in consumer. Now, in the long run, I think consumer will do just fine. Right now, the pandemic is impacting the consumer market more than any other market.

You can imagine with so many people out of work around the world, the GDP contracting, it's not surprising that people are not buying appliances and TVs and so on and so forth. But once we are over this problem, there'll be a pent-up demand, and we think that in the long run we'll do extremely well for multiple reasons. We have our share of dollar content is growing significantly in appliances. And on top of that we have new products like BridgeSwitch that will go into motor control. And so we see a number of – our number one and number two competitors are moving away from that market, so we are gaining share as we speak. It's just that in the short term the pandemic is really pushing the demand down. But in the long run we are not worried about it at all.

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**David Haberle**

*Analyst, Susquehanna Financial Group LLLP*

Q

Understood. Thank you there. And then my follow up on kind of the inventory side, your internal inventory levels are kind of hitting as high as you've seen in years, even if they are all-time highs or not. But is this really concentrated? I think the color at the beginning was talking about inventory levels for consumer, and I know a lot of the products go across end markets, or is this possibly kind of smartphones as you're shipping more direct to OEMs and need more inventory in front of that? Any additional color on the inventory would be great.

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**Sandeep Nayar**

*Chief Financial Officer & Vice President-Finance, Power Integrations, Inc.*

A

Well, so the inventories, a majority of it is in wafer form. So as you know, our products go across the board, so it's kind of spread very well. And as I mentioned on my script, that you'll start seeing it come back. We have started adjusting the wafer purchases, but we have to do it gradually because we have very long-term partnerships, and we kind of moderate it because we want to keep our capacity. But our plan, as I indicated is that, by the second half of 2021 we will get back into our model, which is the 110 days to 125 days. But we have intentionally kept it a little higher. And bulk of it is in wafer form, so we can quickly convert it into the different products that we need.

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**David Haberle**

*Analyst, Susquehanna Financial Group LLLP*

Q

That's very helpful. Thank you.

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**Operator:** Your next question comes from the line of David Williams of Loop Capital. Your line is open.

David Williams

*Analyst, Loop Capital Markets LLC*

Q

Hey. Thanks a lot. I certainly appreciate it. I wanted to see if maybe you could talk maybe a little bit about the 5G handsets and what you're seeing there in terms of maybe the power levels. And maybe if you could kind of maybe give us the split of what you're seeing in 5G in the comms segment versus legacy or 4G handsets. That mix would be helpful.

Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Yeah. I heard the cell phone. The other one is IoT?

Sandeep Nayar

*Chief Financial Officer & Vice President-Finance, Power Integrations, Inc.*

A

5G.

Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

5G. Okay. So we are somewhat, what you call, orthogonal to 5G, meaning that the fastest charging applies to both 5G phones and non-5G phones. But the 5G phones are more likely to use higher power, faster chargers simply because they can run down the battery a lot faster than 4G phones. The applications that they'll use on 5G are power-hungry applications. So 5G for practical purposes, has to have a fast charger, otherwise, you will have a hard time keeping the charge on the phone. You may have to charge it more than once a day. So that is the benefit of 5G driving the faster-charging market.

In terms of power levels, the center of gravity, I would say if you had asked me last year, I would have said, it's roughly around 20 watts is where most people are. But we are definitely seeing that power level move up to 25 to 30 watts now. Some of the high-volume designs in China are around 30 watts. Outside of China, it's between 20 and 25 watts. So that's kind of the power range. But in the real high end, there are people using 50 watts and even 65 watts. We talked about a 65-watt design about six months ago, that was a cell phone charger design. That's probably on the real high end. But we are, in general, seeing power levels increasing.

David Williams

*Analyst, Loop Capital Markets LLC*

Q

Okay. Great. And in terms of maybe design win traction, are you seeing more design wins around the 5G type handsets?

Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

As I said, we are kind of orthogonal to the 5G. 5G benefits us to the extent it does require a faster charger. But fast chargers that we sell, the same charger can go to 5G and 4G phones.

David Williams

*Analyst, Loop Capital Markets LLC*

Q

Okay. Thank you.

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

But 5G will most likely demand a fast charger, whereas 4G can do both fast and slow charging.

**David Williams**

*Analyst, Loop Capital Markets LLC*

Q

Sure. Okay. That makes good sense. And then maybe on the Qualcomm announcement, I guess, earlier about up to 100 watts for their Quick Charge 5.0. What do you think in terms of how that maybe drives the market maybe domestically more so than internationally? But do you think that this helps maybe drive the adoption rates anymore quickly than it maybe what you would have thought previously?

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Absolutely. I mean, the higher the power more ASP we have, and more it drives the customer towards us, because when you go to a 100-watt charger, the charger becomes huge unless you use our technology, the GaN technology, PowiGaN technology. I think the PowiGaN will become much more attractive as the power levels go up. Even at 65 watts, the charger will be too big unless you use GaN technology. So we see that as a significant advantage to us because we have the only commercially successful GaN technology to-date. So we do have customers who are asking for 100 watts. We have customers who are asking for 65 watts for cellphones. So we are working on them as we speak.

**David Williams**

*Analyst, Loop Capital Markets LLC*

Q

Great. And then the last one, if you can kind of frame-up the magnitude of revenue that you're receiving from GaN-based products today. Can you provide us any color maybe directionally on how you expect that revenue to trend?

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Last year, for example, we did in the mid single-digit millions. This year, we think we will double that roughly. And then next year, it could be more than double, based on the design we are working on. Next year could be even bigger jump.

**David Williams**

*Analyst, Loop Capital Markets LLC*

Q

Great. Thanks so much. Certainly, appreciate the time.

**Balu Balakrishnan**

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Thanks, David.

**Operator:** [Operator Instructions] Your next question comes from the line of Gus Richard of Northland. Your line is open.

Gus Richard

*Analyst, Northland Capital Markets*

Q

Yes. Thanks for taking the question. On the consumer business, revenue in that product line or end market peaked in 2017, it has been down 2018, 2019 and it looks like it's going to be flat to slightly down again. Over that arc of time, what's been happening to cause pressure in the growth?

Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Well, they are all different reasons each year. If you remember, there was a downturn in China in appliances. And then, this year, of course, is the COVID that is impacting the demand for appliances, especially in places like China and India where they're completely shut down. India, the demand for appliances and cellphones has come down dramatically. I think cellphones, you said, is down about 50%. So having said that, if we look at the share gains, we are continuing to gain share. Our number one competitor in that market has been losing share to us and our number two competitor, which is primarily the Japan market, has actually left the market. So I think that we will continue to gain share, which is what we normally do even in a downturn, and when we come out of it, we will be in very good shape. But you're right, for one reason or the other, the consumer market has been down, but it's not because of share. We are not only gaining share our dollar content is increasing.

Gus Richard

*Analyst, Northland Capital Markets*

Q

Okay. Got it. And then on the cellphone market, I know you're not working with Huawei because their banned, but they did announce a 65-watt charger I think this quarter. And I believe it's Richtek they're working with, I'm not absolutely sure, and I'm just wondering is Richtek showing up in other accounts or is it just a function of Huawei is the only – doesn't have access to your technology?

Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Well, they have certainly gone to a number of customers in China. But our solution is so much more superior that we have always won against them. Primarily, the component count, their component count is more than 2X of our component count. It makes it very difficult to fit it into a small compact form factor. But in case of Huawei, they don't have a choice, so they have to go with that. But I think if there is a choice, people will choose our solution. In fact, there's really no other solution that has the advantage of component count at relative efficiency and size. We really have the best technology for the cell phone charger market.

Gus Richard

*Analyst, Northland Capital Markets*

Q

And Balu, if Huawei kind of goes away or struggles to gain traction in the market, because I think they were the number one phone company last quarter, if that starts to roll over, does that accelerate your communication business or an accelerant, and are you seeing that?

Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Well, it certainly will because the share will go to either the remaining Chinese companies or to non-Chinese competitors outside of China. So if they decline, we will see a positive impact on our revenue.

Gus Richard

*Analyst, Northland Capital Markets*

Q

Okay. Got it. All right. Thanks so much.

Balu Balakrishnan

*President, Chief Executive Officer & Director, Power Integrations, Inc.*

A

Thanks, Gus.

**Operator:** There are no further questions over the phone lines at this time. I turn the call back over to the presenters.

Joe Shiffler

*Director-Investor Relations & Corporate Communications, Power Integrations, Inc.*

All right. Well, we'll leave it there. Thanks, everyone, for listening. We'll have a replay of this call available on our investor website which is [investors.power.com](http://investors.power.com). Thanks again for listening, and good afternoon.

**Operator:** This concludes today's conference call. You may now disconnect.

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