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PRESENTATION

Operator

Good afternoon. My name is Brent and I will be your conference operator today. At this time, I would like to welcome everyone to the Power Integrations Third Quarter 2021 Earnings Conference Call.

(Operator Instructions)) Thank you. I would now like to turn the call over to Mr. Joe Shiffler, Director of Investor Relations. Sir, please go ahead.

Joe Shiffler - Power Integrations, Inc. - Director of IR & Corporate Communications

Thank you, Brent. 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.

During this call, we will refer to financial measures not calculated according to GAAP. Non-GAAP measures exclude 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.

Our discussion today, including the Q&A session will include forward-looking statements denoted by words like will, would, believe, should, expect, outlook, forecast, anticipate, and similar expressions that look toward future events or performance. Such 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 Form 10-K filed with the SEC on February 5, 2021.

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Now I'll turn the call over to Balu.

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Thanks, Joe, and good afternoon. We delivered another quarter of strong growth in revenues, earnings and cash flows. Revenues were up 46% year-over-year in Q3, and we are on track for growth of better than 40% for the year, based on the midpoint of our Q4 guidance. That's well above the projected growth rate of the analog semiconductor industry, reflecting the substantial market share gains we have achieved this year.

While share gains mainly reflect the strength of our product portfolio and the impact of secular trends such as energy efficiency and fast charging, we have also benefited from our ability to deliver when competitors have struggled to do so. We had a strong inventory position at the start of the supply chain crisis, reflecting our decision to build when others were cutting production at the outset of the pandemic. And while not immune to the supply chain issues affecting our industry, we have clearly benefited from our unique manufacturing model, which affords us dedicated capacity at our foundry partners and from the geographic diversity of our back-end suppliers, which has enabled us to weather the COVID-related shutdowns.

We have also managed our inventories carefully, taking pains to ship as closely as possible to actual demand rather than allowing inventory to build up at customers and distributors. While not perfect, these efforts have enhanced our ability to serve customers and help us win share, most notably in appliances, where competitors have allocated capacity to other product categories. Given the stickiness of appliance designs, we expect to hold on to the bulk of the gains even as supply chain conditions begin to normalize.

We have gained additional share in appliances this year following China's imposition of tighter efficiency standards for air conditioners over the summer. As a result, revenues for air conditioning doubled year-over-year in Q3, and also grew sequentially in contrast to the seasonal declines we normally see in the September quarter.

Driven by appliances, revenues from consumer category are up more than 40% year-to-date. And we are excited about 2022 even with the likelihood of appliance demand normalizing at some point next year. In addition to share gains in AC to DC power supplies, we are seeing strong uptake of our BridgeSwitch products, which drive brushless DC motors used in many appliances. The efficiency of BridgeSwitch drivers compound the energy saving benefits of brushless DC motors and enhances reliability and cost by eliminating the heatsinks needed with competing solutions. We have won a wide range of designs with BridgeSwitch in recent months and expect a meaningful revenue contribution in 2022.

We are also seeing increased traction in appliances with our GaN-based InnoSwitch products, whose efficiency enables designers to accommodate more electronic features with minimal increase in power consumption. While appliance OEMs are typically cautious about adopting new technologies, their familiarity with Power Integrations and the preference for reliable designs with low component count make them far more willing to use our GaN products than our competitors'.

More broadly, GaN has been a key factor in our growth this year and is a critical element of our product roadmap. We sold GaN products to more than 100 customers in Q3, and we are on track to grow GaN-related revenues by 3x in 2021. We expect strong growth for GaN products again in 2022, led by our continued success in mobile device chargers, where the use case for GaN is extremely compelling.

The transformation of the smartphone charger market from a commodity cost-driven market to a value-added technology-centric market continues at full speed, and GaN is fueling the next phase of the transformation. With charging now a strategic element of the mobile ecosystem, OEMs are directly engaged with us to understand how our technology can help them differentiate their products. This is a dramatic change from the past when design decisions were made by charger ODMs based almost entirely on price. This new dynamic makes charger designs far stickier and less susceptible to the kind of volatility we saw in the years past. And because we are -- we have distanced ourselves from competitors with our highly differentiated products, we've been able to win share across a broad spectrum of cell phone OEMs, resulting in a well-diversified revenue stream.

In short, today's charger market bears little resemblance to the market of 10 or even 5 years ago and we expect it to be a significant contributor to our growth for years to come.

Just as technology has disrupted the smartphone charger market, we believe a similar transition is underway in notebook computers. PC OEMs are recognizing that commodity brick-style power supplies are now obsolete since GaN provides ample power for a notebook in the form factor of a cellphone charger.

And just as in the cellphone market, we are seeing an increased level of engagement with OEMs in the design of their power supplies. In Q3, we won a new 100W design at a top-tier PC OEM using our GaN-based InnoSwitch4 products.

As we discussed last quarter, Inno 4 employs high frequency switching to reduce the size of the transformer and maximize power density and can be paired with our ClampZero ICs to recycle switching losses and further enhance efficiency.

We also continue to win healthy share of advanced aftermarket chargers, including a new 45W multiport USB PD design for Japan's #1 accessory brand with our GaN-based InnoSwitch3-Pro. We also won a 30W store brand charger for a major U.S. electronics retailer with a silicon-based Inno3-Pro.

Thanks to growth in notebooks, tablets and aftermarket chargers, the computer category now accounts for more than 10% of revenues, up from just 5% only 2 years ago.

Our market leadership in advanced chargers has been a direct result of innovation. And with a huge market opportunity still in front of us, we are not slowing down. Last month, we introduced our latest product for advanced chargers, the InnoSwitch 3-PD family, the first single-chip solution for USB PD. Along with primary and secondary side controllers and a high-voltage GaN or silicon switch, Inno 3-PD is the first power conversion IC to incorporate a USB PD protocol processor. This eliminates the need for a third-party protocol chip which not only significantly simplifies the design and reduces component count, but also eases component sourcing.

Like all of our InnoSwitch products, Inno 3-PD uses our FluxLink isolation technology to eliminate optical feedback components and integrates a wide range of functionality that our competitors implement with external components. As a result, our designs typically require less than half the number of components compared to competing designs while offering superior efficiency and power density.

Finally, our industrial category continues to grow across a diverse range of applications. Revenues were up more than 50% year-over-year in Q3, driven by home and building automation, metering, solar power and broad-based industrial applications. We have invested significant resources over the past couple of years to enhance our ability to locate and serve small industrial customers. These include online design and fulfillment resources such as our new website and our PI Expert Design Software as well as a consolidation of our channel to better leverage our distribution partners. These efforts are producing results and combined with attractive vertical market opportunities give us reason to be excited about our industrial category for 2022 and beyond.

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

Sandeep Nayyar - Power Integrations, Inc. - CFO & VP of Finance

Thanks Balu, and good afternoon. We had another outstanding quarter with revenues above the midpoint of our forecast, non-GAAP operating margin above 30% for the second quarter in a row and non-GAAP EPS up more than 100% from a year ago.

We are tracking to the improved second half outlook that we communicated last quarter with revenues on course to be slightly lower than the first half despite a significant inventory overshoot in the cellphone market in the December and March quarters.

As we noted on our July call, the overshoot was partially resolved in the June quarter and appears on track to be largely normalized by the end of the year. Meanwhile, we have offset much of the revenue impact with market share gains across a broad range of applications.

Q3 revenues were above the midpoint of our guidance range at $177 million, up 46% year-over-year and down 2% sequentially. The sequential decline was driven by the communication category as expected, reflecting the continued work down of inventory following a period of elevated shipments, driven in part by customers' aggressive efforts to take share from Huawei.

The other revenue categories were all up sequentially. Consumer revenues were up high single-digits on continued growth in major appliances and better than seasonal strength in air conditioning, which reflects share gains stemming from the new China efficiency standards.

Industrial revenues were up low teens sequentially on strength in solar inverters, metering, home and building automation and broad-based industrial applications. Computer revenues were also up sequentially, driven mainly by growth in notebook adapters and monitors.

Revenue mix for the quarter was 34% consumer, 30% industrial, 25% communication and 11% computer.

Non-GAAP gross margin was 52.6%, up 120 basis points sequentially, driven primarily by more favorable end market mix. Non-GAAP operating expenses were $37 million, below our expectations, reflecting the timing of headcount additions and lower than expected travel expenses. Non-GAAP operating margin was 31.7%. While I expect operating margins to settle back into the high 20s based on our near-term hiring plans and other investments, we have clearly seen a step function change in our profitability, thanks to the leverage in our model.

Non-GAAP earnings for Q3 were $51.8 million or $0.84 per diluted share. That's an increase of more than 100% from a year ago on revenue growth of 46%, further demonstrating our leverage. We had another very strong quarter in terms of cash flow with $59 million generated from operations.

CapEx for the quarter was $11 million. We paid out just under $8 million in dividends and utilized just $10 million for repurchases, buying back 120,000 shares in the early part of the quarter at an average price of roughly $82 per share. That brings total repurchases for the year to 455,000 shares at an average price of $79.

Cash and investments on the balance sheet rose by $34 million from the prior quarter and stood at $549 million at quarter-end. Reflecting the strength of our balance sheet, our Board has increased the quarterly dividend to $0.15 per share beginning with the fourth quarter. That's an increase of 15% from the prior level of $0.13. Also, the Board has allocated an additional $50 million to our buyback, bringing the total allocation to $105 million.

Internal inventories rose by 7 days to 99 days, while channel inventories rose to 6.7 weeks, still slightly below our desired level of 7 to 8 weeks.

Looking ahead, we expect revenues for the December quarter to be $170 million plus or minus $5 million. At the midpoint of the range, our full-year revenues will reach $700 million and would be up about 43% compared to the prior year.

I expect non-GAAP gross margin for the fourth quarter to be similar to the third quarter level, while operating expenses should rise to around $40 million as we bring on additional headcount in a range of functional areas, particularly in sales and R&D.

Other income for Q4 should be around $300,000 while the non-GAAP effective tax rate should remain at approximately 8%.

And now, operator, let's begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Karl Ackerman from Cowen.

Karl Ackerman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Congrats on the pretty healthy results despite this headwind in communications. I guess, first and foremost to that point, how are you thinking about the trajectory of your communications business, now that you suggest the inventory adjustment from these Android smartphone OEMs has run its course?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

We really think that the cell phone business is going to grow very nicely next year. The inventory pull down is going to happen a little bit more in Q4, but by the end of Q4, we believe the inventory will be clean. And we, in fact, expect Q1 to be slightly up based on the design wins and our share gains in cell phones. So next year should be a really good year, strong growth year in the communication space.

Karl Ackerman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

I guess as my follow-up, you spoke about some risk to a moderation in appliance revenues for 2022. But are there opportunities such as share gains that could allow you to grow irrespective of end-market growth rate next year?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Yes, just to be clear, we expect all 4 of our end markets to grow next year. It's just a question of relative growth. We think communications and computer, those 2 markets will grow faster next year than the other 2, which is Consumer and Industrial. In Consumer, we expect a slowdown or normalization of the work-from-home demand, but at the same time we have so much share gains, and plus on top of that, we will get the full-year benefit of the energy efficiency drive in China. And added to that, we will also get revenue from our BridgeSwitch product. So the net-net of all of that is that we believe based on our modeling that the Consumer business will grow next year, but not as much as the Communications business.

Operator

Your next question comes from the line of Ross Seymore with Deutsche Bank.

Ross Clark Seymore - Deutsche Bank AG, Research Division - MD

I wanted to echo the congratulations on a strong year in total. Balu, you had talked about that digestion period being done by the end of the year. Nothing to nitpick on it. But last quarter, did you think it was largely done at that point or did you think it was going to continue through the rest of the year? So was there any implied change in that or is that pretty much on schedule with what you had originally told us a quarter ago?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

The last quarter we said that substantial normalization had occurred in Q2. But we knew that it will continue in Q3. Perhaps it was a little bit more than we thought, but it was more than made up for by the consumer being a little bit stronger than we thought. So overall, it didn't make much of a difference. We think to a large extent it is done because our expectation for Q4, is that the communications will be flattish. And then Q1, we expect to have an uptick in communications because by that time, they would have to start ordering because next year should be quite a nice here with all of the design wins we have.

Ross Clark Seymore - Deutsche Bank AG, Research Division - MD

And Sandeep, one on the gross margin side, obviously, it was even better than you thought. I assume that was due to the mix trade off that Balu just mentioned versus your end markets. The fourth quarter guide is pretty clear and strong that it's staying relatively flat. How do we think about in aggregate pluses and minuses for 2022 as communications and computing are going to be the stronger areas? What are some of the ballpark ranges we should think about for the pluses and minuses in gross margin for the entire year?

Sandeep Nayyar - Power Integrations, Inc. - CFO & VP of Finance

Yes, Ross, the best -- we haven't done the plan yet, but the best directionally, as we see it as Balu indicated, the Communication and Computer category will grow faster. But we will have growth in Computer, Consumer and in the Industrial segment. The best I can model at this point is because of the mix and because of this year actually we got a little tailwind from even the utilization, because of the volumes and we've been adding capacity that may turn a little bit next year. But the best guess, I can give for non-GAAP next year is 51.5% to 52% for 2022.

Operator

Your next question comes from Christopher Rolland from Susquehanna.

Christopher Adam Jackson Rolland - Susquehanna Financial Group, LLLP, Research Division - Senior Analyst

In your prepared remarks, you mentioned competitors were allocating away from their customers for certain products. So my question or questions are what competitors, what customers and what products were they allocating away from?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

So without naming specific competitors, I would say that that people who compete with us -- first of all, they're all discrete solutions. They sell controllers into this market and MOSFETs into this market. And for them, this market is on the lower end of their gross margin spectrum. We make very good gross margins in this market, but our competitors who sell controllers, they make gross margin somewhere in the 30s. So if they can make higher gross margin in other areas, whether it's automotive or computing, that's where they allocate their resources. That's where they allocate their capacities. So they are reluctant to put that capacity to a lower margin power business and that has really helped us out, because customers are much more anxious to -- changed our designs, which they were doing anyway, but it just accelerated it.

Christopher Adam Jackson Rolland - Susquehanna Financial Group, LLLP, Research Division - Senior Analyst

Thank you for that. And I'll tie back into with this question as well. So you have I think at least 3 foundry partners. They're not necessarily the big high-profile ones. So I'm assuming that you guys have a little bit more supply than others, but maybe if you can talk to that. And then in that -- because you guys may have supply where others don't, are you using those shortages to push strategic relationships? And which do you find to be most strategic?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Well, the good news is, we have worked with these partners for decades. So we have a very strong relationship. We have also made investments in some of the equipment. So we have some dedicated capacity that's available to us. And we are not competing with big companies in standard foundries like TSMC. So that's the big advantage.

The other thing is in the bad times, we don't slow down and that is how we maintain capacity. If you remember last year, everybody cut back on wafers, we didn't. We built a lot of inventory. And so that's the give and take we have with our partners. So they are very happy that we keep their foundries running and we're able to that way share and keep our capacity.

We are also investing for additional capacity because we know, as we grow, we need more capacity. We have been doing that all along and will continue to do that. And that's what Sandeep was alluding to, we will be investing more, and we are investing more as we speak. And so the utilization this year has been very high. But with more investments, that will be -- this will be a headwind next year for the gross margin, but even then we think our gross margin next year should be slightly higher based on our estimate of 51.5% to 52%. So we think our model, our manufacturing model gives us a humongous advantage in these times.

Operator

Your next question comes from the line of Tore Svanberg with Stifel.

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

Yes. Congrats on the results. First question is on the GaN content Balu. So your architecture is clearly different from some of your peers out there. And this time around, you talked about Inno 3-PD, how that incorporates the controller. So can you just elaborate a little bit on there? Our understanding is that you can have as many as 3 parts in a GaN device. So just some extra color there, please, so we understand the growth profile of GaN going forward.

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Yes, depending upon how small they want to make the adapter, we can have 3 or 4 products. With InnoSwitch3-PD -- PD stands for USB PD, power delivery -- what we have done is we have taken our InnoSwitch-Pro and added the protocol processor into the same package, in fact it's an identical package. So your component count goes down significantly when you do that. But in addition to that, they can also use the MinE-CAP. And then with Inno4, they can also use the ClampZero, and so we can have lot more content in an adapter or a charger. So that increases our dollar content quite significantly. And we are very different from other people because they normally sell a primary side controller and then the customer has to buy a switch from somebody else, high-voltage switch, then they have to buy a secondary side controller and a processor. So whereas here, we have a single-chip solution to all of that plus a way to reduce the size by adding couple of more chips.

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

That's very helpful. And then on the notebook market, it feels or sounds like it's starting to really break out for you. Obviously, smartphone charger was very stronger last 2 years. But is it fair to say that notebook is going to continue and have a pretty robust year in 2022?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

In fact, we think next year is going to be a year where notebook can grow very significantly. We have a number of design wins. And our share of that market is very small, it’s in the single-digit percentage. And so we have a lot of room to grow. And the psychology there is going through the same phase as cell phones. If you remember, cellphones used to be just a cost-driven market with the number of ODMs supplying to an OEM and the OEM was never involved in the decision making. And the same was true -- has been true, I would say, notebooks, where few ODMs in Taiwan provide almost all of the notebook adapters. That's why they look very much alike. And it's all based on price. But that is changing because they now look at the charger made for a cell phone, which is in similar power level, 60W, 65W, but dramatically smaller. And they're scratching their heads and saying, "Okay, well, I have this beautifully thin notebook, lightweight notebook. Why am I shipping this big brick with it?" So that is happening as we speak. And so now we are getting direct engagement with OEMs. And so we are able to show what our technology can do to make their total product much more attractive.

We talked about a design win last quarter, where they actually advertise the weight not only of the notebook, but also the charger and the combined weight of both of them. And that trend, I truly believe will continue, because I don't think consumers will accept a brick when they see their cell phone charger is much smaller. And of course, the aftermarket guys also helping because they are now building multiport chargers that can charge your notebook and your cellphone. And if you noticed, some of the growth you've seen in notebook is actually aftermarket guys supplying really small chargers to the notebook market, and -- so that's also helping us.

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

That's great context. Just one last one for Sandeep. Sandeep, do you have a CapEx number for '22 at this point?

Sandeep Nayyar - Power Integrations, Inc. - CFO & VP of Finance

For 2022, I think you should think at about 6% of revenue.

Operator

Your next question comes from Gus Richard from Northland.

Auguste Philip Richard - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Yes. Congratulations on a great quarter. I was wondering if you could just, Balu, talk about the tightness you see in the MOSFET market in general? And is that an additional tailwind for you guys or just doesn't matter anymore?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Absolutely, it is. Again, there is a significant shortage of all components, including high-voltage MOSFETs. So as a result, they are looking at our solutions saying, "okay, this uses half, less than half the number of components." So just by the fact that they don't have to source so many different components, makes it very attractive for them to switch over to our solutions. There's no question about it. You have far less worry about procuring those components. And you're absolutely right, the high-voltage MOSFET shortage is really benefiting us.

Auguste Philip Richard - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Okay. Got it. And then could you briefly talk about the cellphone, TAM or SAM versus the computer TAM or SAM, and just the relative sizes? Could -- is the opportunity in computer the same or smaller because they're the smaller units or any color there would be helpful.

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Yes, I'm just taking a look at it. The SAM -- let me check it. So the communication SAM in the is in the order of $750 million for our products. And the computer SAM is about $650 million. So it's comparable.

Auguste Philip Richard - Northland Capital Markets, Research Division - MD & Senior Research Analyst

And that $650 million, does that include like standby power and include like monitor power and that kind of thing, or are we comparing AC/DC to AC to DC?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Well, it includes all of those things. It includes notebooks, tablets, chargers. It includes monitors, printers and server standby. And there is very little of PC standbys, because that's very small now.

Auguste Philip Richard - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Right. And then just moving on to the consumer market. You made an interesting comment that you didn't think it would grow as fast as communications and PCs with communications probably not being as strong as PCs. In the Consumer market, you're gaining so much share. Do you expect to see given the strength of PC units in the back half of the year, and inventory correction in the first half? And sort of why don't you think that can keep up with, let's say with cell phones?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

Well, as far as inventory, we don't think there is much inventory at our consumer customers OEMs because we keep a very close relationship with them. But our concern is really twofold. So one is the work from home demand, which is really helping everybody in this business, is eventually going to normalize. We all know that. We don't know the magnitude, we don't know when it's going to happen, but we believe it's going to happen sometime next year, okay. Now that's more than offset for us by the share gains we are getting from our competitors who are either walking away from this market or de-emphasizing this market in favor of other markets. And once we get the share, we believe the share is very sticky. It's going to be permanent because our products are truly better. We would have gotten this share anyway, is just that these shortages is helping us get the share faster. The share transfer is happening much faster next year.

So that's -- the headwind is the normalization of work-from-home demand. The second one to a smaller extent is the housing situation in China. As you know, there is a problem there, where people are not buying homes, and the way it worked in China is that until you buy the home, there are no appliances installed. So that is a small concern. The reason I say it's a small concern is because even though we ship a reasonable amount of our appliance products to China, a lot of them come out of China to other countries. So we think overall, China demand is probably around 20% of the total appliance demand because we ship to appliance companies in Europe, in U.S., in Korea and then, of course, in China.

Now on the positive side, we also have one other benefit that is -- India market has been very soft this year. And I believe there is pent-up demand for appliances in India that is likely to make it a growth area for us next year. So all in all, we are feeling really good it will grow. We are just a little bit concerned that there are some headwinds that the growth may be slightly impacted. But we don't know for sure. But this is our best modeling right now.

Auguste Philip Richard - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Got it. That makes complete sense now. Million doses of COVID vaccine and you're probably going to go a long way to stimulating demand. That's it from me.

Operator

Your next question comes from David Williams of The Benchmark Company.

David Neil Williams - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

So just wanted to kind of maybe touch back on the comms segment. And obviously that scenario of the Huawei inventory build is playing a part there. But I'm just wondering if there is any potential that this could be any type of erosion of share or changing perhaps there or if there's any other dynamic within that potentially could be impacting that as well or is it simply is just the over inventory?

Balu Balakrishnan - Power Integrations, Inc. – President, CEO & Director

David, we are very confident that are not losing sales, quite the opposite. We continue to gain share. That's very clear. This normalization we are seeing is just because several of the OEMs bought way too much products thinking that they will get an unfair share of Huawei. They did get some share, but nowhere near what they were expecting. Obviously, they didn't have the parts, they can't get the share. So they have to always err on the side of having more products. Having said that, they are all very positive about next year. They think next year is going to be a strong year. India is going to come back. Even with the work-from-home demand normalization, they don't believe is going to impact the cellphone business. And in the same time, we are gaining share. We already have a good share of the smartphone market, but we still have a long way to go. And then we also have the business with the aftermarket guys, which is doing very well. And that's likely to grow as well next year.

So we are feeling really good about our position in this market and we believe very strongly that our share will continue to grow for the foreseeable future because our products are just way too compelling.

David Neil Williams - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

Makes sense. I appreciate the color and that's similar of what we're hearing as well. But there's been a lot of claims by, maybe newer entrants that there are some design wins there. So just wanted to set the tone. So I appreciate the color.

And then maybe if you could speak to anything from a supply chain challenge that you're seeing in terms of thinking about the fourth quarter. Are there any areas in particular or pockets of strength or weakness or anything that's impacting your business ability to maybe meet the demand? Or anything new that's developed in in terms of the supply chain over the last several quarters?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

No. We have had supply chain challenges like all other semiconductor companies. But we are -- our situation is lot better than almost anybody else for multiple reasons. One is, we have, as I said, a very strong relationship with our foundry partners. They are truly partners. They are not regular foundries where they sell to a number of different people. We have kind of committed capacity there and they're working with us to expand the capacity. And in terms of the back-end, we are so geographically diversified that even when we had stoppages in Malaysia and in Taiwan -- I mean sorry, Thailand, we could shift some of our business to other areas. And so the impact was less. I can't say there was no impact. It did impact us, it did impact some of our customers. But I would say the lastly, probably, the best thing we did, and it was not easy to do is to ship to real demand. What we didn't want happening is that our inventory being spread among number of customers and distributors. Then we won't be able to serve our customers very well. So we begged our customers not to build inventory, so that we can take care of all customers by having all the inventory in one place. And I think that we did probably better than almost any other semiconductor company that I know of. And so that has really benefited us. And that's why we're able to take care of our customers and be in a much better situation. By the way they really appreciate it.

David Neil Williams - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

Fantastic. And just one last one real quick. Do you think your visibility is improving -- or if you were to compare maybe, I guess 90 days ago, do you think your visibility into the channel demand is better, worse or maybe indifferent?

Balu Balakrishnan - Power Integrations, Inc. - President, CEO & Director

I think just the fact that we are so closely engaged with distributors and direct customers, we are getting lot more real-time data from them. One of the things that this COVID situation has done is it brought us very close to the OEM. In the past, the OEMs would buy through distribution. They would place the order with the distributor, and distributors place order with us. But because of the supply chain issues, now they are directly communicating with us on the business conditions. So if they need more parts, they tell us right away. So we don't have to wait for the distributor to tell us. And I think this is going to work to our benefit significantly over time because that creates a strong relationship with the OEMs. And that allows us to have a much more sticky business. And this has always been true to a large extent in our appliances is even better now. But what is really amazing is in the cellphone business, where we had very little relationship with OEMs, now we are very closely working with OEMs. And that is going -- that has made the cell phone business almost like an appliance business in terms of stickiness and not having the volatility we used to have 10 years ago. When they could switch their ODMs anytime, and you could lose share almost overnight. That's very unlikely to happen going forward. So I think the cellphone business has completely changed for us. And we are really pleased that this COVID has given us a chance to show that we are a better supplier. And I think that's going to help us long term.

Operator

Your next question comes from the line of Christopher Rolland with Susquehanna.

Christopher Adam Jackson Rolland - Susquehanna Financial Group, LLLP, Research Division - Senior Analyst

Hey, guys, thanks for the follow-up. I guess for Sandeep, so anything on your lead times and then also on backlog? Is that still growing or is that starting to normalize now? And Sandeep, you're really good at the macro and the big picture. I was wondering if you have any thoughts on ideas of inventory building, customers are over-shipping to demand. And whether that comes back to haunt the industry, not necessarily you guys because you can supply these guys, but for the industry more broadly?

Sandeep Nayyar - Power Integrations, Inc. - CFO & VP of Finance

I think -- I'll talk in terms of us, because I'm not an industry expert, but I'll talk generally. We have done a very prudent job. And just take a look back, I think we were -- we talked about normalization in cellphone. And we talked -- we are already talking to you that because of work from home, there'll be normalization next year possibly on the appliance here, even though we're going to gain and offset it by share gain. So you see we look at the patterns and look at and saying, it is realistic. This industry has gone through and I think this year has benefited a lot and lot of segments from work-from-home. And there will be a normalization. And it's a matter of time when that will happen.

As far as our lead times, for half our products we're at about 6 weeks to 8 weeks. And for the rest of them, it's little more elevated. But as Balu indicated the approach we took with our partners, whether it be the foundry partners in the past when things were tough we still built inventory because we think long-term. And that's where we get capacity.

And it's the way we operate and our long-term thinking that enables us. And truly as Balu indicated, what feedback we have got from our customers is we've been actually one of a differentiated supplier, being able to supply most of our customers' real demand because the way we managed it.

Operator

(Operator Instructions) There are no further questions. I will turn the call back over to the presenters for closing remarks.

Joe Shiffler - Power Integrations, Inc. - Director of IR & Corporate Communications

All right. Thanks everyone for listening. There will be a replay of this call available on our website, which is investors.power.com. Thanks again, and good afternoon.
