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POWI - Q4 2019 Power Integrations Inc Earnings Call

EVENT DATE/TIME: JANUARY 30, 2020 / 9:30PM GMT

OVERVIEW:

Co. reported 4Q19 revenues of \$114.5m and non-GAAP earnings of \$167.9m or \$5.60 per diluted share. Expects 1Q20 revenue to be \$110m, plus or minus \$3m.



JANUARY 30, 2020 / 9:30PM, POWI - Q4 2019 Power Integrations Inc Earnings Call

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Power Integrations Fourth Quarter Earnings Conference Call. (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, Mr. Joe Shiffler.

Thank you. Please go ahead, sir.

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

Thank you. Good afternoon, everyone. Thanks 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, which may be 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 in our statements. Such risks and uncertainties are discussed in our press release and in our most recent Form 10-K filed with the SEC on February 13, 2019.

During this call, we will refer to financial measures not calculated according to generally accepted accounting principles. Non-GAAP measures exclude stock-based compensation expenses, amortization of acquisition-related intangibles, the tax effects of these items and in the prior year results of benefits stemming from the 2017 U.S. tax legislation.

The gain associated with the settlement of our patent litigation with ON Semiconductor is included in our non-GAAP results to be consistent with our past treatment of litigation expenses. A calculation of the earnings per share benefit of the settlement is presented in our press release tables, along with a reconciliation of non-GAAP measures to our GAAP results. Sandeep will provide more detail on the financial impact of the settlement in his remarks. 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 - Power Integrations, Inc. - President, CEO & Director

Thanks, Joe, and good afternoon. We closed out 2019 with record quarterly revenues of \$114.5 million, up 23% from a year ago. This performance reflects a recovery from the cyclical downturn but also strong idiosyncratic growth driven by our continued success in fast chargers for mobile devices. Revenues from our Communications category grew more than 80% year-over-year in Q4, and during the fourth quarter we won new high-volume in-box designs at power levels of 18, 25 and 30 watts, each at a different OEM. All of these designs use our InnoSwitch3 or InnoSwitch 3-Pro chips, which are gaining share in charger market thanks to their superior energy efficiency and high level of integration. These characteristics are essential to designing faster chargers with the attractive form factors that consumer expect with their mobile devices.

Thanks in part to the success of these products in the marketplace, our Communications category grew more than 25% in 2019, and we expect strong growth again in 2020. Adoption of faster chargers is picking up steam as consumers become aware of differences in charging speed and as OEMs incorporate larger batteries, a trend that is bound intensify with the rollout of 5G devices.

Also driving the market to higher power levels is the proliferation of ultra-fast aftermarket chargers from companies like Anker and RAVpower. Many of these designs use our InnoSwitch products with gallium-nitride technology to achieve power densities that are not possible with silicon. While cost will likely confine GaN-based chargers to the higher end of the market in the near term, we are encouraged by the level of interest OEMs are showing in the technology. We won our second in-box design with GaN in Q4, a 45 watt design for a Korean OEM, and we have a strong pipeline of ongoing design activity.

GaN is an important part of our broader product roadmap beyond the mobile device market. We have already introduced a version of our LYTSwitch LED drivers incorporating GaN switches, and we'll be driving GaN technology deeper into our product portfolio in the years ahead. We are making substantial investments in this year in technology, products and manufacturing capacity to take full advantage of this important breakthrough.

Returning to the Q4 results, while rapid charging was the biggest growth driver, we also saw year-over-year growth in our Consumer business for the first time in nearly 2 years. Appliances perhaps more than any other end market have been impacted by tariffs and related macroeconomic factors, resulting in declines in our Consumer category in each of the past 2 years. While trade and macro issues continue to be a concern, our Consumer business is well positioned for 2020. We grew more than 20% year-over-year in the fourth quarter, and distribution sell-through exceeded sell-in for the fifth quarter -- fifth consecutive quarter, indicating that channel inventories are at healthy levels to begin the year. More importantly, the fundamentals that have made us successful in appliance for so many years remain firmly intact.

We have long held a commanding market share in appliance power supplies, thanks to the reliability benefits of our highly integrated products. We believe we have expanded our share over the course of the downturn, and we are well positioned for continued gains as InnoSwitch products gradually penetrate the appliance market.

By eliminating optocouplers and integrating secondary side components, InnoSwitch not only further enhances reliability but also raises our ASP. At the same time, we continue to benefit from rising dollar content as appliances add more electronic features and intelligence, such as network connectivity, which increases the power level or in some cases even necessitates an additional power supply.

Another continuing trend in appliances is the expansion of the middle class in emerging markets. This has obvious implications for unit growth, but also brings a heightened concern for energy efficiency. While efficiency has long been an important consideration for appliance makers, it becomes even more important as comfort and convenience appliances become affordable for hundreds of millions of more people around the world.

In December, the Chinese government demonstrated its concern for this problem by publishing new efficiency standard for room air conditioners, scheduled to take effect on July 1. The new standard should accelerate the migration of the market away from inefficient linear power supplies and AC motors during -- towards switching power supplies and brushless DC motors. We are well positioned to capitalize on this opportunity with our AC to DC products as well as our newer BridgeSwitch motor drive ICs, which address brushless DC motors up to 300 watts.

We estimate the addressable market for BridgeSwitch to be \$300 million to \$400 million, comprising a wide range of appliance applications, such as compressor motors, water pumps, and the fans used in split air conditioning units such as those subject to the new China standards.

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We shipped our first production quantities of BridgeSwitch in Q4, and we have a strong pipeline of design activity at a wide range of appliance customers around the world. We also anticipate a return to growth this year in our Industrial category, which felt the effects of cyclical and macro softness in 2019 but continues to benefit from secular trends driving demand for our products. These include the continuing growth of renewable energy, the adoption of battery power for tools and transportation, home and building automation and other IoT-type applications, such as smart utility meters.

And while we are still some time away from material automotive revenues, we continue to invest in products and infrastructure for the EV market. Earlier this month, we announced a successful qualification of a 750-volt gate driver under the AEC-Q100 automotive standard. This is our second gate driver product qualified for automotive use, and we have more such qualifications underway as well as an active design pipeline with several major automakers.

In conclusion, while our revenues grew just 1% in 2019, we outperformed the analog semiconductor industry by a wide margin, and we are entering 2020 with momentum following a strong fourth quarter.

We are also excited to enter the new year without the burden of major patent litigation. The settlement with ON Semi, which we announced in October, not only brought us a payment of \$175 million, but also eliminated a significant drain on our financial and management resources. Perhaps most importantly, the favorable resolution was a resounding validation of the value and durability of our intellectual property, and we hope sends a strong signal about our determination to protect it from infringement. With that, I will turn over to Sandeep for the review of financials.

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

Thanks, Balu, and good afternoon. I will begin with the financial impact of the litigation settlement, which, as Joe noted, is included in our non-GAAP results, matching our treatment of legal expenses over the course of the litigation.

The settlement resulted in the receipt of \$175 million in cash during the quarter. Net of expenses directly related to the settlement, we recorded a gain of \$169 million as a contra-expense, which is shown as a separate line item on the income statement. Book tax expense associated with the settlement was approximately \$26 million, leaving a net benefit of \$143 million or \$4.78 per diluted share based on the Q4 share count. The cash tax impact was approximately \$20 million, which we paid out in the fourth quarter.

Turning to the non-GAAP financial results for Q4. Revenues were \$114.5 million, just above the midpoint of our guidance range and up slightly from the prior quarter. The Consumer category grew low double digits sequentially on a seasonal strength in air conditioning. Computing revenues increased mid-single digits with growth in server standby, desktops and monitors. Industrial revenues were down mid-single digits, driven mainly by high-power, where sales for high-voltage DC transmission projects fell from the prior quarter. As we have discussed in the past, HVDC projects tend to be lumpy in terms of revenue, but continue to be an excellent application for our gate drivers, and we expect them to contribute significant revenues in 2020, along with renewable energy applications.

Communications revenues were essentially flat sequentially, as expected, reflecting seasonality in smartphone chargers. Revenue mix for the quarter was 35% Consumer, 30% Industrial, 29% Communication and 6% Computer. Non-GAAP gross margin was 52.1%, up 10 basis points from the prior quarter as changes in end market mix were largely offsetting. Non-GAAP operating expenses were negative as a result of the litigation settlement. Otherwise, operating expenses were slightly lower on a sequential basis, and came in below our expectations, primarily due to the timing of headcount additions and purchases of nonproduction-related equipment. The non-GAAP effective tax rate for the quarter was 14%, higher than normal due to the settlement. Non-GAAP earnings were \$157.9 million or \$5.60 per diluted share, including the benefit of the settlement, which was \$4.78 per share.

Inventories on the balance sheet rose by about \$1.5 million during the fourth quarter. We had 147 days of inventory on hand at quarter end, up 3 days during the quarter, but down 16 days from the fourth quarter a year ago. Channel inventory fell to a multi-year low of 6.5 weeks, down more than a week in Q4 and more than 2.5 weeks from a year ago.

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Over the course of the year, distribution sell-through exceeded sell-in by nearly \$10 million, primarily in the Consumer category. Cash flow from operations was \$182 million for the quarter, driven by the settlement. Capital expenditures were just under \$10 million in the fourth quarter, and we paid out \$5.6 million in dividends.

In all, cash and investments on the balance sheet increased by \$166 million, ending the quarter at \$411 million. While the influx of cash from the settlement further strengthens our balance sheet, we remain committed to our disciplined approach to capital allocation. Selective M&A, opportunistic share repurchases and further dividend increases will continue to be in the mix. Our first priority, as always, will be to invest internally to take advantage of the opportunities in front of us, including new technologies such as GaN, new markets such as automotive and the rapid adoption of USB PD.

In addition to incremental investments in R&D and sales, we expect to spend approximately \$35 million in 2020 for capital equipment as we add general manufacturing capacity and build out our manufacturing capabilities for GaN. We also plan to invest \$25 million this year in new facilities for our high-power business in Europe as well as updates to our U.S. facilities and an expansion of the solar array at our headquarters, which will pay for itself through energy savings.

Looking ahead to the first quarter of 2020, we expect revenues to be in the range of \$110 million, plus or minus \$3 million, with the Industrial, Communication and Computer end markets each contributing to the sequential decrease. The margin impact of end market mix should be slightly negative, resulting in non-GAAP gross margin between 51.5% and 52%. Non-GAAP operating expenses will reflect headcount increases as well as typical seasonal factors such as higher FICA and the comparative effects of the year-end shutdown in Q4. These factors will be partially offset by lower litigation expenses.

Overall, I expect non-GAAP OpEx to be approximately \$35.5 million. Finally, the non-GAAP tax rate for the quarter should be around 7%.

And with that, I'll turn it back over to Joe.

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

Thanks, Sandeep. We'll open it up now for questions and answers. Operator, would you please give the instructions for the Q&A session?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Tore Svanberg from Stifel.

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

Congratulations on the strong end to the year. Balu, you talked about 2 new design wins for GaN inbox, but you also talked about this technology being more confined to the high-end phones because of the cost. Could you talk a little bit more about the gating factors as far as getting the cost lower to make this more mainstream?

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

Good question, Tore, thanks. We are obviously working very hard on reducing the cost of GaN. We actually believe our proprietary GaN technology is actually more cost effective than almost anybody else's GaN technology. But like any new technology, it takes time. And the fact that we are using GaN extensively in newer products, tells you that we believe, at a system level, we are already cost effective. Otherwise, nobody would use this product. The real question is how far our customers are willing to push the size and the efficiency of the power supply. If the size and efficiency

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is needed, we are already cost effective. But having said that, we will continue to work on cost reduction over the next few years. We truly believe it will replace silicon in -- as a switch in power supplies.

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

Very good. And you talked about \$35 million of CapEx to add capacity for GaN, should I interpret that as customers obviously being very interested in the technology and asking you to perhaps add some capacity for this market?

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

Well, the fab capacity always takes longer time. So we have to start now. This is based on our forecast of what we think the demand for GaN would be -- that is used in a number of new products. Yes, in the sense that we are very optimistic that we will need this capacity over the next 2 to 3 years.

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

And Tore, the \$35 million is not for GaN. Of the \$35 million, about \$10 million is towards GaN. We spend typically around \$25 million otherwise. So I would say the incremental part of \$10 million is towards GaN.

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

That's helpful. Just one last question, then I'll go back in the queue. So the channel inventory is now running pretty low. I think you said lowest in 2 years. But why do you think that is? Is it sort of just typical cyclical? Or do you think there is just nervousness about the economy and demand. If you could just add a little bit of color there, that would be great.

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

So first of all, it's not that far away from where we would expect the disti weeks to be in a normal environment, it was unusually high for a long time. We think it should be around 7 weeks and is right now 6.5 weeks. So it's not that different. And it's very possible they're being a little bit careful because of all the trade issues and so on and so forth. So -- but that's not -- that far away. I mean we do expect them to go back to 7 weeks soon.

Operator

And your next question comes from the line of Ross Seymore from Deutsche Bank.

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

I just wanted to talk a little bit about the linearity of the business and see if there is any changes, especially on the Consumer side. I know that's very China driven, and the unfortunate news about the coronavirus is potentially weighing on that. So Balu, any color on the linearity, what you're looking for by end markets in the first quarter and then any change recently given some of those health concerns.

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

Well, based on our bookings so far, it's somewhat linear through the quarter simply because the New Year -- Chinese New Year occurred in the last week of January. January is usually a very strong month. But this year, January and February are very similar, and March will be probably slightly

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stronger based on what I can tell. So it's much more linear than usual. Usually, it's U-type linearity in the first quarter. Now as far as the coronavirus goes, it's still happening in real time. So we don't have a very good understanding of what the full impact would be. But what we do know at this time is that our suppliers, by the way, we only manufacture -- we do back end manufacturing on some of our old products and packages in China. And almost all of that is second sourced outside of China. So we have the ability to shift it there. Having said that, our Chinese vendors who do the packaging, assembly and test for us, they are saying that they will be only shut down in 1 case for 1 additional week that is next week. The other 2 suppliers, they are going to be up and running as of next Monday, but not the full rate because they don't have all of the employees coming back. But to the best we can determine at this point, our ability to supply will not be limited unless this shutdown continues for a longer period of time. What is harder to predict is whether the demand will change because our customers can't either get other components or they don't get enough production workers coming to work to do the -- to build the products. That's something we are unable to predict at this time. So that's what we know, and that's what we have taken into account. If things continue to deteriorate, then obviously, it will have an impact not just on us, but every other company.

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

As far as your question on the end market, as you heard in my comment, from Q4 to Q1, the decline is primarily as a result of Communication, Industrial and Computer, and Consumer being flattish. The Communication would have been typically been a lot lower, but what has happened is, we won, as Balu indicated in his script, some more design wins, which actually got us greater market share and helped us, the decline in Communication was much lower than we were originally expecting.

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

Got it. And then my last question, and then I'll go back in the queue. Is the gross margin for the full year -- I think last time we spoke, as you had given the growth in the Communication side, you kind of thought this should be around 51% for the full year. I know where you started the year in your 1Q guidance, but any change, Sandeep, in kind of the trajectory on a full year basis?

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

I think the full year basis should be around the -- what I had indicated earlier, at 51%. And as you know, as the year progresses, Communication is going to keep ramping, and we'll have sequential growth in Q2 and Q3. And this year, Q4 was flattish with Q3, and that should be kind of similar. So I think looking at that trajectory and the best modeling I can do, I think the gross margin will keep going down about 25 to 50 basis points each quarter for the rest of the year in that direction roughly, averaging about 51% for the year.

Operator

And our next question comes from the line of David Williams from Loop Capital.

David Neil Williams - Loop Capital Markets LLC, Research Division - VP

Congrats for the quarter. I wanted to ask a little bit on the Consumer segment and the return to growth there, specifically in the appliances. Can you remind us how big a portion appliances are to that overall revenue? And then maybe what you're seeing driving that specifically in terms of -- in gains, if you could kind of break that down between content gains and maybe just improvement in the demand trajectory?

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

So the Consumer as a percentage is somewhere around 35%, if you look at it for the fourth quarter. But we continue to gain share as well as do very well in areas of comfort appliances like air conditioning as well as major appliances. And as we talked about in our script, with the change in



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regulations coming in China as well as the middle class growing, we believe -- and the channel inventory getting -- where we've had sell-through greater than sell-in for the last 5 quarters, I think I have indicated earlier that I had a feel. And this is where it kind of further supports that in the coming year, we should see growth in this category.

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

And David, I think you asked whether -- what percentage of the Consumer category is appliances. And I'd say that's somewhere in the 90% range. It varies by quarter, but somewhere around 90% of the Consumer category comes from appliances.

David Neil Williams - Loop Capital Markets LLC, Research Division - VP

Okay. And then maybe thinking about the rapid charging. That's obviously still early in the stages, but we're seeing that the power levels progress fairly rapidly, especially in the aftermarket chargers. Can you kind of talk about how you think that trends over time? And just kind of where that we are within the saturation of adoption? And does that -- I guess, the rate of increases, does that meet kind of what you're thinking internally? Or how do you expect to see, I guess, a little bit less jump between each generation in power levels?

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

Well, it took quite a while for USB PD to take up, but now that it is taking up, we are seeing a faster adoption than what I would have expected. And we are seeing it in 2 -- we are growing our revenue in 2 ways. One is, if you look at the power levels that people are using, the center of gravity seems to be around 20 watts. We have a lot of designs about 18 watts. But we also have designs at 25 watts, 30 watts, 45 watts, 65 watts. But most of the volume is around, let's say, 20 to 25 watts. And if you look at how many of the cell phones are using power levels above 18 watts, in 2019, our estimate is about roughly 20% of all cell phones. In 2020, based on our projections, it looks like it will be more than 30% of the phones will use greater than 18 watt power supply. And within that range, that is a greater than 18-watt range, we are also growing share against our competitors. We think this year, our share will be in excess of 50% of that market. So what is happening is we not only are gaining share in the smart power phones, we are also seeing that more and more phones are migrating away from the 5 and 10 watt chargers to 20, 18-plus watt charges, which means that we are actually gaining share against the low end commodity suppliers in an indirect way, you will -- if you can see. So the net result is we are seeing faster growth than I expected, and I think that will bode really well for us in 2020.

David Neil Williams - Loop Capital Markets LLC, Research Division - VP

Fantastic. And then maybe just think about the automotive segment and just the opportunity there. How do you think about maybe the infrastructure side and outside of the car itself? Where else can you play within the EV market, do you think, in terms of maybe some charging infrastructure or just elsewhere?

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

So there are multiple areas. The most difficult one that takes the longest time is the drivetrain. If you're actually driving the main motor that has a lot of safety requirements, and it has a lot of qualification and also road testing, they apparently test it for 1 full year on various weather and road conditions. So the drivetrain revenue is likely to be 3 to 4 years from now before we see any significant revenue. Now if you go into other areas like chargers, whether it's on board charger or external charger, those have shorter design cycles. The other area is power supplies that convert the 400-volt battery to lower voltages for various subsystems, whether it's a computer or a guidance system or whatever electronics you have that needs to be powered from the 400-volt battery. It so happens on the existing electric vehicles, they use a separate 12-volt battery for all the electronics. But for the future vehicles, they want to run everything off of 400 volts because it's much more efficient. So we can see several sockets for our AC to DC products because they will also work from DC voltage. So they will work from 400 volts down to 12 volts or 5 volts or whatever voltage they would need. Those have faster design cycles and less restrictions. The other one is our Qspeed diode, which is very attractive for several sockets within the car. And we are already seeing design wins there. So in terms of revenue growth, we will start seeing some low level of

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revenue this year, probably under \$1 million, and then it will gradually increase, but we won't see this significant increase until maybe '23, '24 time period.

Operator

And your next question comes from the line of Christopher Rolland from Susquehanna.

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

I guess the first one is on GaN. Maybe you guys can talk about whether -- or when you think new competitors could potentially come into this market? Or do you have 2020 to yourself like you did last year? And then I know you ultimately think that GaN replaces silicon. But of the top 5 OEMs, handset OEMs, how many would you expect to offer at least one SKU with GaN in box?

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

Okay. Thanks, Christopher. First of all, there are several competitors. In fact, there are probably -- my guess is about 15 different companies who have been talking about GaN for many, many years. Some of them go as far back as 10 years. But the factual information is we are the only ones supplying in high volume and we are the only ones with OEMs who are very, very strict in quality and reliability and so on and so forth. So far, we have 2 big OEMs using us in high end of their charger designs. And we have several other OEMs we are working with. The real question is how fast it will be adopted. It's -- it depends upon what the consumer will demand. If the consumers get attached to very fast charging times. For example, the first design we got, in box design was a 65-watt design. And that can charge a battery on 0 to full in 25 minutes. In many cases, you don't need to do more than 10 minutes because you're not trying to charge it to the full level. And if that catches on and if there is a competition between different OEMs, the adoption rate could be much faster. We just don't know. We have to wait and see.

But as I said earlier, even at the higher price at a system level, if you're trying to reduce the size of the adapter, which means you have to increase the efficiency of the adapter, we are already cost effective. There is no other way to do that cost effectively other than using our technology. And in terms of the technology, even though we have a lot of competitors, most of the competitors use a different GaN processing technology than we do, we have a unique proprietary technology, which we believe is superior, not only in terms of performance, reliability and also in terms of cost. So we think that we are in a much stronger position than most of our competitors in being able to offer the technology that would be attractive to our customers. The fact that they've been around for a long time tells you that the technology has been around, but it either has cost issues or system-level use issues and/or they have some quality issues. The second important factor that is different for us is not only we have a unique GaN technology, but GaN technology is almost transparent to the user because we take care of how we drive it efficiently, how we protect it as a discrete device, it's very difficult for customers to use GaN devices. I think that's where most of our competitors struggle because they are offering discrete GaN devices. We don't offer discrete GaN devices. In fact, we have been shipping GaN devices even before people realized we are shipping GaN devices. It's only when somebody figured it out and did a report, we had to come out publicly to talk about it because the way we think about technology is just a means to the end, not an end in itself. So that gives us a huge advantage because it is transparent to the user. It was just like silicon except it has much higher efficiency. And that's what makes our GaN so much more attractive because the customer does not worry about how to drive GaN or how to protect the GaN device.

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

Yes. And then perhaps looking at the segments for Q1. I think you had a little bit of color, but any more color there would be great. And then as we're moving through at the very beginning of 2020, maybe you can talk about your expectation for the full year. I assume it's going to be comms to drive that, but would love your thoughts.

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

I don't have a lot more to add on Q1. But for the whole year, we think this will be a good -- very good growth year for us. If you look at 2019, even though we only grew 1%, we were significantly better than the analog industry. And we believe that will be the case again this year. The analog industry is expected to grow somewhere between 0% to 3%, also depending on whose data you look at. And we think we're going to beat that hands down this year, thanks to the communications market, particularly the fast chargers. But also because the consumer, we believe, will come back this year.

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

Okay. And any color for Q1? I think you might have said that Industrial was going to contribute to the decline and I think that...

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

And so let me take another attempt. I'll talk sequentially. What I said in my comments is that the decline from Q4 actuals to the midpoint of the guide was primarily coming from -- equally from Communication, Computer and Industrial and that Consumer would be flattish from Q4.

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

And Industrial is typically, I believe in Q1. So maybe the...

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

It's actually typically down in Q1, and that is because the funding and these are infrastructure spends. The budgets come out -- come about in Q1 and then gradually it rises. So typically, Industrial is down. In fact, Communication would have been more down, as I had mentioned to the earlier question, but because of the design -- because typically that's what happens, but because we won more design wins and good market share, they even offset that potential decline.

Operator

And your next question comes from the line of Gus Richard from Northland.

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

First of all, congratulations on prevailing on the legal matters, that's just fantastic. I'm glad that's behind you.

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

Thank you.

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

Thanks, Gus.



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

Yes. No, it's been a long time. My first question is, in the guidance you provided for Q1, what factor did the current outbreak at the coronavirus play? Did it -- did you temper your guidance at all because of that? Or is it not a factory? Just any sense of a magnitude.

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

So we -- what I think I discussed this earlier. So we believe, based on what we know currently, which, of course, is subject to change, that we can supply the products to our customers because we have talked to our assembly vendors. And by the way, in China, we only assemble some old products, most of that is second source, so if necessary, we can shift it. But at the moment, it looks like that's not necessary because they are saying they can supply to us even though they are shut down in 1 case, they're shut down next week, in the other 2 cases, they will open on Monday, and they'll operate at some partial level because they can't get all of the employees back to production floor. But based on what they have told us. We believe -- and we also have inventory, as you remember, we have quite a bit of inventory, and we also have inventory of raw materials. And therefore, we are comfortable that we can ship to demand in Q1. What we don't know because it is still -- the Chinese holiday is there, they won't come back until Monday, is whether there is any impact on the demand itself. And there could be multiple reasons. One is that they don't get enough production workers to build products. That's our customers I'm talking about. The second potential impact would be that they can get our parts, but they can't get some other component, and so they can't build the end product. Those are the 2 things we cannot take into account. It's -- we don't know whether that is going to be a problem. And also it depends upon how long the shutdown lasts. You can speculate what is going to happen. What we are hearing from our vendors is that the Chinese government is planning to shut down until end of next week, which happens to be like 14 days, which they say is the gestation period for this virus. And their thinking is, if it doesn't spread any more or if the number of people infected goes down, that would be the end of it. That is there won't be no more shutdowns. But that's just speculation at this time. If they continue to shut down, it will have an impact, but I don't know how to quantify it. And that's not taken into account in our guidance.

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

Got it. And then just -- I know that most of your sales are to distribution, the sell out of distribution, what percentage of that is into China itself as opposed to say Vietnam or, Taiwan, et cetera? Rough round numbers?

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

Well, so if you really look at it is that what we sell into distributors, typically to the disti, they sell to a great extent. It's the end product going out from China that we don't know. But if you look at it, typically the sell into China, into the distributors, it's 40% to 50%.

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

Yes. I think your question is, how much of it is actually manufactured outside of China. So roughly speaking, I would say 50%, as Sandeep said, will be shipped into China from our warehouse in Hong Kong. So whether some of it will go outside of China, I don't know. Usually, if it is done in Vietnam, we would ship directly to Vietnam I would presume. But most of our Chinese customers do manufacturing in China.

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

Got it, got it. So roughly half of your product goes into something that's built into -- in China?

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

Correct.



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

Got it. And then just one real quick on the lit expense, it was \$5 million to \$6 million, as I recall, and how much of that are you going -- how much of that will you realize in savings on an ongoing basis?

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

So if you remember, the run rate was somewhere around about \$8 million and change. Q4 was a little higher. What we had guided was that we would get on an annual basis, what we had said is of that \$8 million we would realize about \$4 million in savings. And what we said is that after taking this into account, the annual growth rate would be still about 5% to 6% in total.

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

For total expenses.

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

For total expenses.

Operator

(Operator Instructions) Your next question comes from the line of Tore Svanberg from Stifel.

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

I just had a few housekeeping ones. Sandeep, what was the operating cash flow, excluding the settlement? I get about \$33 million, but just wanted to run that by you.

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

I mean -- what I would do is take the \$169 million and take out \$20 million. So that's about roughly \$149 million is roughly related to the settlement.

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

Very good. And Balu, you mentioned that the [BridgeSwitch] is now sampling, and it sounds like you're going to get some revenues this year. Is that going to be specifically tied to the designs for air conditioners because of the new China government policy?

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

Part of it is. The others are also into appliances. We go into water pumps, we go into the main motor for the dishwasher and also compressor drivers for refrigerators. And then the other ones are fans. I talked about fans for air conditioners. So we started actually shipping in production in Q4, we had little bit of revenue in Q4. But this year, we are expecting something in the few million dollars maybe low single digits for this year. And then it will gradually grow into the appliance market primarily. The appliance market is slow but very steady growth. So this growth will happen over many years. But so far, the indications are extremely positive. They love the product. It's just a question of getting it designed in. And then once it gets designed, it will be copied to other products within each company.

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Operator

And there are no further questions at this time.

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

Okay. Then we'll leave it there. Thanks, everyone, for listening. There will be a replay of this call available on our website, which is investors.power.com. Thanks again for listening, and good afternoon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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