



**POWER INTEGRATIONS INC.
Fourth-Quarter 2013 Financial Results
Corrected Transcript
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Joe Shiffler: Thank you. Good afternoon. Thanks for joining us to discuss Power Integrations' financial results for the fourth quarter of 2013. With me on the call are Balu Balakrishnan, president and CEO of Power Integrations, and Sandeep Nayar, our chief financial officer.

During today's call, we will refer to financial measures not calculated according to generally accepted accounting principles. Please refer to today's press release, available on our website at investors.powerint.com for an explanation of our reasons for using such non-GAAP measures, as well as tables reconciling these measures to our GAAP results.

Also, our discussion today including the Q&A session will include forward-looking statements reflecting management's current forecasts of certain aspects of the company's future business. Forward-looking statements are denoted by such words as will, would, believe, should, expect, outlook, estimate, plan, goal, anticipate, project, potential, forecast, and similar expressions that look toward future events or performance.

Forward-looking statements are based on current information that is by its nature dynamic and subject to rapid and even abrupt changes. Our forward-looking statements are subjects to risks and uncertainties, which may cause actual results to differ materially from those projected or implied in our statements. Such risks and uncertainties are discussed in today's press release and under the caption Item 1-A Risk Factors in Part II of our most recent 10-Q filed with the SEC on November 1, 2013.



This conference call is the property of Power Integrations. Any recording or rebroadcast of this conference call is expressly prohibited without the written consent of Power Integrations. Now I'll turn the call over to Balu.

Balu Balakrishnan: Thanks, Joe, and good afternoon. We finished 2013 with a strong quarter, posting revenues of \$90.4 million, up 14 percent from a year ago. For the full year, revenues were \$347 million, also a 14 percent increase.

Had the CT-Concept acquisition been included in our results for the entirety of 2012, our growth in 2013 would still have been over 10 percent, well ahead of the 2 percent growth rate for the analog semiconductor industry. Since 2006, our total revenues have grown at a compound annual rate of better than 11 percent, or about 10 percent organically, compared to an industry growth rate in the low single digits.

2013 was also an outstanding year in terms of profitability and cash flow. We earned \$0.66 per share on a non-GAAP basis in the fourth quarter, bringing our full-year EPS to \$2.46, up 37 percent from 2012. Our gross margin was a key driver of the earnings growth, rising more than 2 percentage points in 2013 thanks to cost reductions, a more favorable yen-dollar exchange rate, and strong growth in higher-margin markets like industrial and appliances.

We generated \$99 million of cash flow from operations during the year and added more than \$100 million of cash and investments to our balance sheet. As announced last quarter, our board of directors has increased our quarterly dividend by 25 percent to \$0.10 per share effective in the current quarter. This reflects the strength of our balance sheet and our multi-faceted approach to shareholder returns, which has included a mix of internal investment, strategic transactions, opportunistic stock buybacks, and a modest but growing dividend.

Our strong results in 2013 and our track record of outperforming the peer group reflect an unwavering focus on our core competency of high-voltage power conversion. We continue to gain share within our traditional low-power market thanks to our unique combination of integration, reliability, energy efficiency, and system-level design expertise. Through a mix of



internal development and strategic transactions, we are now able to offer these same benefits at much higher power levels and in new, fast-growing markets like LED lighting.

These new categories have already added more than \$1 billion to our addressable market with more to come as the LED lighting market develops and as we expand our high-power product portfolio in the years ahead. In fact, we estimate that over the next two to three years, our addressable market could reach \$3.5 billion, or about 10 times our 2013 revenue, giving us ample room for long-term growth.

Our 2013 results demonstrate the strength of our business model and the potential for growth in the years ahead, especially with many of our long-term drivers still in the early innings. In terms of end markets, industrial led the way, with organic growth of nearly 20 percent and overall growth of nearly twice that. We saw strength across the board in industrial, driven by an improved demand environment, share gains, and growth in newer markets like lighting and high power.

Revenues from lighting applications grew more than 20 percent during the year and were up double-digits sequentially in the fourth quarter. All signs point to an acceleration in 2014, as the cost of LED lamps continues to fall and retail subsidy programs take hold.

While this is still a rapidly evolving market, we believe the requirements of LED lighting are moving in our direction. As volumes rise and LED lighting moves into the mass market, cost will be of paramount importance, while reliability and efficiency will remain critical factors. We believe our highly-integrated LYTSwitch family of driver ICs and our simple single-stage architecture are well-suited for this environment and we expect to remain a leader in LED lighting in the years to come.

In addition to lighting, growth in the industrial category was also driven by our high-power IGBT driver business, which contributed more than 10 percent of our total sales in 2013 and grew nearly 40 percent on a full-year-to-full-year basis. The CT-Concept acquisition has been highly successful so far



and will allow us to participate in the ongoing global transition towards efficient DC motors, renewable energy and electric transportation. We look forward to expanding the high-power opportunity further in the years ahead as we introduce products combining Concept technology with our low-power technologies.

In the consumer market, we grew our sales 8 percent in 2013, driven by strong growth in appliance applications. The reliability that comes with integration has helped us garner strong market share in appliances, while energy efficiency requirements and the increasing penetration of electronics into appliances are expanding the silicon content available to us.

Our sales into the computing end market grew mid-single-digits in 2013 despite the prevailing headwinds in the PC market. We were able to grow thanks to market share gains, most notably in main power supplies for desktops. This continues to be an attractive market for us given the dollar content available in main power supplies and the still-dominant market share of outdated discrete designs.

In the communications end market, sales stabilized in 2013 as our end customer mix in cell phone chargers became less of a factor, and we now see an opportunity to grow that business going forward, as the mobility market migrates towards high-powered chargers to reduced charge time. This trend favors Power Integrations because it takes a higher level of integration and efficiency to deliver higher-power output without increasing the size of the charger.

As discussed on prior calls, we are collaborating with Qualcomm on their Quick Charge protocol, which utilizes a simple communication scheme to ensure that devices receive the maximum power they are capable of accepting. We can also support any other rapid charging protocol that comes into the market and are working closely with other players in the industry, including mobile-device OEMs and suppliers of power management circuitry for battery charging.



We have won several rapid-charging designs over the past few months, we are encouraged by the level of ongoing design activity, and we expect to begin shipping production quantities around the middle of this year.

In sum, 2013 was an outstanding year both financially and operationally for Power Integrations. The growth strategy we have articulated over the past several years continues to play out, we are executing well, and we are more excited than ever about the opportunities ahead of us.

Now I'll turn the call over to Sandeep for a review of the financials.

Sandeep Nayyar: Thank you and good afternoon. I will quickly review the fourth-quarter financials and the outlook and then we will take your questions. In my remarks, I will focus primarily on the non-GAAP numbers, which are reconciled to the corresponding GAAP numbers in the tables accompanying our press release.

Our fourth-quarter revenues were \$90.4 million, down 1 percent sequentially. Revenues from the consumer, industrial, and communication end markets showed modest sequential decline, while sales into the computer market increased on growth in desktop applications, primarily driven by further penetration of main power supply applications.

Revenue mix was similar to the prior quarter, with industrial and consumer at 34 percent of revenue each, communication at 21 percent, and computer at 11 percent. Distributors accounted for 76 percent of total sales in the quarter, while direct sales were 24 percent.

Non-GAAP gross margin for the quarter was 54.5 percent, up 30 basis points sequentially, due to the more favorable dollar-yen exchange rate, which has improved the cost of wafers from our Japanese foundries. Non-GAAP gross margin for the year was 53.8 percent, up 220 basis points from 2012, driven partly by the yen, but also a more favorable end-market mix.

We are modeling a slightly lower gross margin for 2014 based on our expectation of growth in the cellphone charger market where margins tend to be lower than average, as well as the contribution from new products, which



tend to have a short-term effect on gross margin as we work to optimize production costs. Nevertheless, we expect growth in gross profit dollars to produce leverage on the operating margin line.

Non-GAAP operating expenses for the fourth quarter were \$28 million, coming in at the lower end of our forecasted range. That resulted in a non-GAAP operating margin of 23.5 percent, up nearly 3 percentage points from a year ago, on the combination of expense leverage and the higher gross margin.

Other income was \$0.5 million in the quarter, a bit higher than normal, due to a gain of approximately \$400,000 on the recovery of a previously written-off asset. Including a \$0.01 benefit from this nonrecurring item, non-GAAP earnings were \$0.66 per diluted share, up 40 percent from a year ago when we earned \$0.47.

Cash flow was strong again this quarter, with \$23.5 million of cash generated from operations, and capital expenditures of \$2.7 million. For the full year, we generated \$98.7 million in cash from operations, with just \$14 million of capex. Cash and investments on the balance sheet totaled \$202 million at quarter-end, an increase of \$22 million during the quarter, and more than \$100 million during the year.

Internal inventories were at 92 days on hand at quarter-end, up from 85 days in the prior quarter, but still a bit below our normal range. Channel inventories fell to 5.6 weeks at quarter-end versus 6 weeks last quarter.

As for the outlook, we expect first-quarter revenues to be in the range of \$86 million to \$92 million, which would be up 16 percent on a year-over-year basis, at the mid-point of the range. Gross margin in the first quarter should be similar to the fourth-quarter level.

I expect non-GAAP operating expenses to be roughly \$29 million in the first quarter. That's an increase from Q4, reflecting the resumption of payroll taxes, plus the comparative effect of the year-end shut down that occurred in the fourth quarter.



Lastly, I expect our non-GAAP effective tax rate for 2014 to be approximately 7 percent, a couple of points higher than 2013, due to the expiration of the R&D tax credit. With that, I will turn it back over to Joe.

Joe Shiffler: Thanks, Sandeep. We'll open it up now for the Q&A session. And in the interest of time, we'll take two questions per caller – two questions each per caller, but if we do have additional time, we'll be happy to come around for an additional round of follow-ups.

Operator, would you please now give the instructions for the Q&A session.

Operator: At this time, if you would like to ask a question, please press star-one on your telephone keypad. And to withdraw your question, please press the pound key.

And your first question comes from Tore Svanberg with Stifel. Your line is now open.

Tore Svanberg: Thank you and congratulations on a very strong year. My first question has to do with the backlog and visibility. I was hoping you can comment a little bit on your bookings linearity and where you stand from a backlog coverage right now?

Sandeep Nayar: The backlog for the last quarter continued to be relatively strong, especially as the quarter progressed. The guidance that we are giving for this quarter is in line. The turns that we had turned out to be about roughly 50 percent, even though as you know in our case, revenue [doesn't match shipments] because we are on sell-through. And the turns we are expecting based on the mid-point of the guidance is somewhere around the mid 40 percents.

Balu Balakrishnan: Just to clarify, the turns are based on shipment and we won't know the sell-through until that happens. So it's not a very good indicator but we did have a stronger backlog at the beginning of the quarter this quarter by about 10 percent compared to the last quarter, so our turns requirement this quarter is lower.



Tore Svanberg: That's very helpful. As my follow-up, Balu, you mentioned you expect to be in production in the fast-charger market by mid-year. I was hoping you could maybe elaborate a little bit more on that.

Should we expect this to be with multiple OEMs or should it be steady Eddie a little bit in the beginning and then more ramps into 2015? Just trying to understand the degree of the design win?

Balu Balakrishnan: Sure, we had three design wins in the quarter. Two of them were based on QC, the Quick Charge; the other one was a rapid charger but doesn't use any protocol, it just uses the higher current. Those will start pre-production in Q2.

The rapid charger without QC is actually a pretty high-volume customer. All three of those customers are well-known names that you would recognize. We expect some revenue in Q2. Then the second half is where you will see meaningful revenue from fast – or what we call rapid-charging market.

Tore Svanberg: Very helpful. Thank you very much.

Balu Balakrishnan: You're welcome.

Operator: Your next question comes from Ross Seymore with Deutsche Bank. Your line is now open.

Ross Seymore: Hi guys. I also wanted to pass on congrats on a very strong year.

As far as the baseline off of which we should build some of these Quick Charge rapid charge opportunities, can you give us a little color on what percentage of your total sales handsets represented in this last year? And how we should think about what they could grow to this year?

Sandeep Nayar: The cell phone business is still – is about roughly around 11 percent of our total revenue.

Ross Seymore: Great and then the trajectory you pretty much answered with Tore. How do we think about – or Sandeep, you talked about the negative mix implication on the gross margin but leverage on the OpEx side. Can you give us a little



bit more color about how both of those two fit into what we should be thinking about for 2014?

Sandeep Nayar: As I had indicated in my [remarks], with the new product introduction, there is a lot of variables from a margin standpoint. We have, not only the new products, but you've got the mix, the yen.

At a high level right now for modeling purposes, we just think that for the year, based on what we can see right now, the margin will come down roughly around approximately 50 basis points on a full-year basis from where it is. Obviously, the expenses will grow, but this is what we are going to manage as the year progresses as to how the year turns out. That's where we believe the leverage will come.

Ross Seymore: Great. Then one last housekeeping question quickly. What are your expectations for CapEx for the year?

Sandeep Nayar: As you saw that this year the CapEx was a little bit below – typically we round out about \$20 million, we did about \$14 million. Next year, we are making some additional investments in IT infrastructure and a little bit in capacity, so we expect to spend somewhere around about [\$25] million to \$27 million. But if you take the average of the two years, it will come somewhere around the \$20 million. Next year's projection is between \$25 million to \$27 million.

Balu Balakrishnan: To clarify next year, what he meant – next year, he meant ...

Sandeep Nayar: Oh, I mean 2013...

Balu Balakrishnan: 2012 was below normal. We normally do about \$20 million in CapEx but we only did about \$14 million in 2012.

Sandeep Nayar: 2013. In 2013.

Balu Balakrishnan: 2013. Sorry, I am doing it now – 2013 was unusually low. 2014, this year, it will be higher because of some of the IT investments we are doing.

Ross Seymore: Got it. Thank you.



Operator: Your next question comes from Vernon Essi with Needham & Company. Your line is now open.

Vernon Essi: Thank you very much. I just wanted to follow on Ross's line of questioning there, on the gross margin, for clarification. You said that you are expecting about a 50 basis-point year-over-year decline? Was that how you characterized that?

Sandeep Nayyar: On an [annual] basis. Approximately, and obviously that could vary depending on what happens with the new product and mix and yen, but that's our high-level modeling right now.

Vernon Essi: OK, and your competitor – or one of the more vocal competitors in the rapid charge arena – suggested that this was going to be a pretty much a very widespread capability. In fact, the expectation was a Pareto thing where 80 percent of these chargers would have this capability probably by the end of 2015. Do you think, given the design wins that you have and the discussions with the vendors that are out there, that that seem to be the direction this is heading? Or is it still – are you still in a wait-and-see mode with how the adoption rate might turn out for that market?

Balu Balakrishnan: Well it is safe to say the rapid charging is going to be used in a broad sense in the smartphones going forward. The real question is how many of them will use a special protocol to vary the voltage and how many of them will just increase the current and go up to about 10 watts. 10 watts is about the maximum you can go without changing the voltage.

Just as a reference, the older phones or existing phones use a 5-watt charger, so going to 10 watts will speed up the charging by a factor of 2. But if you want to go more than 10 watts, then you have to use some kind of a protocol, whether it's Quick Charge protocol from Qualcomm or some other protocol.

So in terms of where the market is going, I would agree that pretty much most of the smartphones in the future will use 10 watts or higher. But exactly what protocol would they use for more than 10 watts, we don't know yet.



We think QC is the best protocol. It is the least expensive; it is simple, takes very few components, especially if you use our solution. So we are optimistic that QC will become very prevalent.

Now when you go to tablets and go to ultrabooks and notebooks, then you really don't have much of a choice. You really have to go to some kind of a protocol if you want to be compatible with a USB type of connector.

So in those cases, a large number of them, maybe all of them, would go to either a QC protocol or they have to go to a dedicated charger with a hard-wired wire without any connectors. As soon as you put a USB, you have to be backward compatible, and so you have to have some protocol to make sure that it is backward compatible.

Vernon Essi: OK. Thanks for the clarification on all that.

Just a completely shifting gears topic here – a lot of press recently on smaller batteries and rechargeable batteries throughout the marketplace, some notion that there is going to be standardized wireless charging and induction. What is your take on the discussion around that with OEMs in the portable or mobile space that are designing some of these? And I would think that the energy efficiency benchmarks would make these prohibitive but are you seeing any developments that may change that or how that might impact your Business over the next couple of years?

Balu Balakrishnan: We are following a number of wireless charging activities that are happening all around the world. The big challenge is efficiency. Most of the wireless charging systems have an efficiency that's in the 30 percent to 50 percent range, which is as bad as the linear transformers if you can remember that going back a few years. So the California Energy Commission is not at all thrilled about going backwards on energy efficiency.

Having said that, there have been some improvements. The energy efficiency is gradually improving and depending upon how quickly or how many people like to use their wireless charging, there is a good possibility that wireless charging will become prevalent.



As far as an impact on us, it is really – we are very orthogonal to whether to use wireless charging or not because if you use a wireless charging pad, you still need a power supply to power it. And it turns out that a Quick Charge protocol is ideal for that kind of an application.

The chances are, if the wireless charging becomes prevalent, there will be a lot more chargers sold than less. The reason for that is, you may have a wireless charger at home and one at work and maybe even the hotels will install it in their rooms once it becomes standardized. That means you will have a huge number of installations for the first two, three years.

But on top of that, you still can't take the chance of assuming that wherever you are going you will have a wireless charger, so you have to take your regular charger with you. So there will be actually more chargers, we believe, if the wireless charging becomes a practical solution.

Vernon Essi: OK. Thanks a lot, Balu. Great quarter.

Balu Balakrishnan: Thank you, Vern.

Operator: Your next question comes from Andrew Huang with Stern Agee. Your line is now open.

Andrew Huang: Thanks. I wanted to switch gears a little bit and switch over to CT-Concept.

Can you share with us your thoughts on CT-Concept for the full year for 2014? And what visibility you have on those large infrastructure projects? Is there a chance we could see some growth in the first half of this year?

Balu Balakrishnan: We are not going to split out the revenue of CT-Concept but we are giving you a lot of indications. They grew very close to 40 percent in revenue last year versus 2012 so that should give you a pretty good indication.

In terms of visibility, they are doing very well in China, driven by the energy-efficiency initiatives, particularly in medium-voltage motor drives for industrial applications. But also in wind turbines and also solar inverters. In



addition to that, in China, there is a lot of work going on in locomotives. They're building a lot of locomotives that we are designed into.

Andrew Huang: OK.

Balu Balakrishnan: Just to be clear, just because they did 40 percent in 2013, we are not expecting them to do 40 percent growth this year. In fact I don't think they will. The reason they did so well is that they were coming off of a very soft year in 2012 for industrial applications, especially because a lot of the programs in China were held back during the change in management there.

Going forward – again, coming back to the future, we are also seeing signs of life in Europe coming back in renewables and we are seeing significant activity in U.S. and India on renewables. For the first time in the history in 2013, solar became grid-neutral so the cost of generating energy from solar is equal or less than the cost of energy on the grid, which means that even without subsidies, solar can become very cost-effective. There are a number of programs in the U.S. and also in China and India that would be a good area for growth for CT-Concept.

Andrew Huang: Got it. OK and then maybe a clarification question on the Quick Charge commentary, because you said you had two design wins in the quarter for Quick Charge and then one was another design win, but not under that protocol. I also think last quarter you had one, so is that a total of four now, cumulatively?

Balu Balakrishnan: Correct.

Andrew Huang: And the one that you got last quarter, was that also for Quick Charge – under the QC standard?

Balu Balakrishnan: That's correct.

Andrew Huang: OK. Thank you.

Balu Balakrishnan: You're welcome.

Operator: And again, if you'd like to ask a question, please press star-one.



Your next question comes from Steve Smigie with Raymond James. Your line is now open.

Steve Smigie: Great. Thanks a lot.

Balu, I was hoping you could comment on the LED opportunity and what kind of growth – it sounded like you said 20 percent growth last year but that it's accelerating. Does that mean we should expect north of 20 percent this year?

Balu Balakrishnan: I would think so. Everything points to a much stronger year this year but it's very hard to know what the growth will be.

Steve Smigie: OK and for you guys, you think it's primarily going to be on home – the residential lighting market as opposed to maybe the enterprise market?

Balu Balakrishnan: Well so far, we are seeing a very good mix of both. But if I look at the design activity, a lot of it is on the bulb replacement business, because of the rebates that there are being given in California and many other states. We are seeing more of that.

So it's possible this year, there will be more revenue from the lower-end bulb replacement business. But that doesn't mean we won't have design wins in commercial industrial applications. It's just that there will be more revenue growing in the bulb replacement business.

Steve Smigie: OK. Going back to the CT-Concept question, OK, not expecting 40 percent growth this year, but could you do 20 percent? Is that in the realm of possibility?

Balu Balakrishnan: First of all, we really don't want to talk about CT-Concept separately but I would say that they should grow nicely but we just don't know exactly how much.

Steve Smigie: OK. Within the computing side, can you talk a little bit about your growth opportunity there this year – and within that, you've got a bunch of parts there – HiperTFS stuff, you've got SENZero, CAPZero – is there any particular one of those parts that you are winning more of? Or is it you are just generally



winning – if you get that main power win, you are getting all those parts together are on the win?

Balu Balakrishnan: Actually those products you just mentioned – the Hiper products, the CAPZero, and SENZero – they grew sequentially about – what – 26 percent or so sequentially in Q4, so they're doing extremely well. That's where we are seeing the growth.

That is we are growing into the main PC market – our main power supply of the PC. We have also increased our share in the PC standby, especially in the last three quarters, you have seen a significant growth in PC standby revenue, along with the main power supply revenue.

Steve Smigie: If you do get the win with the HiperTFS with the main, does that suck out any other parts that you might have originally had on there, though? Is there a little bit of cannibalization?

Overall, it seems like the growth is going to be a lot more. I'm just curious if there's a little bit of cannibalization? Because just on the diagrams you show, it seems there is one part there that might get incorporated in?

Balu Balakrishnan: In some instances, the standby power supply is included in the Hiper product but not in all instances. For example, if you want to go to gold or platinum power supplies, the standby is still separate. So yes, there is a little bit of cannibalization, but I won't call it cannibalization, because the ASP is so much higher, is somewhere in the 4 to 5 times higher, if they use the Hiper CAPZero, and SENZero chips. So it definitely is an increased – a growth opportunity within computing.

Steve Smigie: OK, if I could just sneak one more in. Just on the consumer business, a good portion of that today is on the appliance side, and overall that business grew something like 9 percent. Could you see something like 9 percent growth this year as well?

Balu Balakrishnan: Again, it's really very difficult to predict. All I would say is we do see growth opportunities in all of our four end markets. Exactly how much each one will grow, you will have to wait and see.



Steve Smigie: OK, great. Thank you.

Balu Balakrishnan: You're welcome.

Operator: Your next question comes from Jon Lopez with Vertical. Your line is now open.

Jon Lopez: Hi. Thank you very much for taking the questions. Excuse me – got a little bit of a cold I'm getting over.

My first question is just on the gross margin to make sure I understand the commentary. Based on where you are starting the year, for you to get 50 basis points down for full year is going to require you to exit the year something below 53 percent.

Is that what you're intending to communicate? If it is, is it all related to the 10 percent or 11 percent of your business that's headed to Quick Charge or are there other things at work there?

Sandeep Nayyar: As I had indicated, there are a lot of factors that go into this. That is basically the new product ramp, the yen, the mix, so at this point of time, what I am trying to do is not point out a particular quarter. I am trying to say on an annualized basis that is what it is going to be, but is going to be, but obviously the ramp in the second quarter, of the new product, is going to be attributable to it.

Jon Lopez: Understood. OK.

Secondly, just trying to understand the dynamic on Quick Charge a little bit better. You guys had announced your product as commercially available or you were far down the road in either October or November of last year.

What I am driving at this is, we're going to a Mobile World Congress in a couple of weeks. There will be pretty full slate of new products introduced. It doesn't sound like much of that is going to incorporate Quick Charge 2.0. I am wondering why. In other words, what's pushing this into the second half



of the calendar year when there is a reasonable slate of devices they are going to launch pretty shortly here?

Balu Balakrishnan: That's because you need to change both the phone and the charger to make the Quick Charge work. You have to modify the phone design, which always takes some more time.

My expectation is that you would see products with Quick Charge probably somewhere around the middle of the year. They don't tell us exactly which products it goes into, but that's just the time it takes to design the system.

Jon Lopez: Got you. Understood.

I assume that would be the same cadence for your competitors. In other words, somebody mentioned, one of the U.S. guys dialogue had announced a product recently. Would that put them pro rata behind you, in other words, two or three months behind you – or is the whole thing caught up so that a competitive product now is on the same cadence as yours?

Balu Balakrishnan: We do have a time advantage because we were so far ahead of everybody else on the QC.

Jon Lopez: Got you. Got you. Helpful.

Sorry just two quick ones. The LED market, you had commented earlier in 2013 that it was something like 7 percent to 8 percent of the total revenue. I am wondering if you can update us on what the contribution of LED is, as a total percentage of the next exiting year?

Sandeep Nayyar: Are you talking about what total LED revenue is?

Jon Lopez: That's exactly right, yes. You had commented earlier, LED as a percentage of your total business, and I am wondering relative to the 7 percent, 8 percent that it stood at earlier in 2013, where it stood exiting 2013?

Joe Shiffler: In the fourth quarter, John, the higher end of that range is where we exited the year, so call it high single-digits as a percentage of sales.



Jon Lopez: High singles. Got you.

Got you. Great thanks. Very last one.

It's probably a little bit of the nuance, but if I look at inventory weeks, as you referenced, they're down versus third quarter, but they're up a bit versus the fourth quarter of last year and the fourth quarter of 2012. I'm just wondering, is it in a comfort range now in terms of your targeted weeks or have they crept up versus the same period a year ago for any specific reason, be it a Quick Charge or anything else? I was wondering if you can just comment on that?

Sandeep Nayar: Are you talking about the weeks in the channel, right?

Jon Lopez: That's exactly what I am talking about. Yes?

Sandeep Nayar: The weeks – our lead time for our products are 4 weeks to 6 weeks so it fluctuates – so the 5.5 weeks, give and take, is at a reasonable level.

Balu Balakrishnan: Just to be clear, we only recognize revenue on sell-through, so the inventory at our distributors really doesn't make a whole lot of difference to us.

Jon Lopez: No. Totally understood.

OK. Thanks a lot for the help. I really appreciate it.

Balu Balakrishnan: Thank you.

Operator: Your next question comes from Edison Chu with G2 Investment. Your line is now open.

Josh Goldberg: Hi. This is Josh Goldberg. Congratulations on a strong quarter.

Just two or three quick questions. First is, did you say right that your backlog entering the quarter was roughly about 10 percent higher than your backlog entering the fourth quarter?

Balu Balakrishnan: That is correct.



Josh Goldberg: OK, but you guided to a similar guidance range for the top line?

Balu Balakrishnan: Yes, and the reason for that is, you have to remember, February is a soft month for us because of Chinese New Year. So we had to take that into account.

Plus, in terms of bookings, we had very strong bookings in Q4. Our book-to-bill ratio was slightly about 1. That's the reason we have the higher backlog but the bookings go very soft in February.

Josh Goldberg: OK. I know last year your computer segment had a difficult Q1 as there was a lot of inventory and not many orders. And I am just wondering, obviously, with a flattish to slightly – or flattish to down a little bit in Q1, which segment would you see the most pronounced decline in the first quarter?

Balu Balakrishnan: Well, we had a very strong growth in the PC market for the last three quarters and so we are modeling PC to be slightly lower in Q1. In addition to that, our revenue from air conditioning market was very strong in Q4, which is somewhat unusual. Usually Q1 is our strongest quarter for air conditioning.

That's another reason we are a little bit conservative on air conditioning revenue for this quarter. Those two areas, we think will be less than normal this quarter.

Josh Goldberg: And some segments are actually going to be up quarter-over-quarter?

Sandeep Nayar: It's very hard to be very predicting very precisely for us, because for us same part goes into different end applications so it's very hard for us to expect what it's going to be exactly.

Josh Goldberg: I see. OK.

One last one. If I look at your business in 2014, it sounds like your Quick Charge opportunity will peak somewhere either in the second or the third quarter, with obviously some design in for the holiday season. Is it fair to say that, at least on the Quick Charge side, that should be – third quarter would be your peak quarter for that?



Balu Balakrishnan: Just to be clear, Quick Charge is one of multiple protocols that are out there. So I would rather talk about broadly as rapid charging. That is anything...

Josh Goldberg: OK.

Balu Balakrishnan: At anything 10 watts and above.

Josh Goldberg: OK.

Balu Balakrishnan: And that will start to ramp in – start ramping in Q2 and have production level volumes in Q3 and Q4, but certainly I don't expect that to be the peak because it will expand into more and more phones over time. It may take two, three years before it broadens into most of the smartphones, because what normally happens is they try these new protocols on maybe the highest end of the phones. And then once they get comfortable and also once the costs come down, they will gradually broaden it to other phones. It's not going to be – it's going to be continuing to ramp through probably next two or two and a half, three years.

Josh Goldberg: OK great. Last one for me.

Obviously your cash flow from operations in the entire year was really strong, north of \$100 million in net cash generated. My guess is that as 2014 develops, you should generate similar amounts of cash.

I realize CapEx will be up, but you will probably have a higher revenue and earnings as well. Your cash is going to be almost close to \$300 million at that point. Do you have any plans on what are you going to do with the cash – whether it means stock buyback, increased dividends, or just looking for some more tuck-in acquisitions?

Sandeep Nayar: Apart from the capital expenditures, our inventory levels were only at 92 days... The inventory levels should also go up a bit, which will also be a use of cash.



You are correct, in spite of that, we should have growth, maybe not as large as what you are indicating, but we have said all along we have four uses [for cash] and we have demonstrated opportunistically what we do. We just – board increased the dividend just last quarter, starting this year by 25 percent. Historically, we have bought a lot of shares back – we have done share buyback, as well as some internal investments and some strategic transactions. So it will be all four depending on what's the right thing at that point of time.

Josh Goldberg: OK, great. Thanks so much.

Operator: Your next question comes from Christopher Longiaru with Sidoti & Company. Your line is now open.

Christopher Longiaru: Hello, guys. Thanks for taking my question.

Balu Balakrishnan: Thanks.

Christopher Longiaru: Can you talk about your expectations for operating expenses as the year progresses? Are there major ramp ups in R&D as this progresses or tape-out costs that we should be modeling?

Sandeep Nayar: The expenses will grow modestly throughout the year, but again, it will depend on how the whole year evolves as the time goes by, with revenue.

Christopher Longiaru: Is there an area that you'd like to stay in, as that evolves, with respect to revenue?

Sandeep Nayar: Roughly, if you want for modeling purposes, you can presume roughly \$400,000 or \$500,000 a quarter but again as I said it will depend on how the year evolves.

Christopher Longiaru: OK.

Sandeep Nayar: Each quarter, I have given you a rough number, but again, we will evaluate that as the year progresses.

Christopher Longiaru: That's helpful. Then just in terms of – on the share repurchase plan – how much is left on the share repurchase plan?



Sandeep Nayyar: The buyback, you mean to say?

Christopher Longiaru: Yes.

Sandeep Nayyar: It's about \$30 million roughly.

Balu Balakrishnan: Just to be clear, we are not buying at this time.

Christopher Longiaru: Right. OK, thanks guys. That's all for me.

Balu Balakrishnan: Thank you. You're welcome.

Operator: Your next question comes from Steve Smigie with Raymond James. Your line is now open.

Steve Smigie: Great. Thanks for the opportunity on the follow-up.

Following up on that last operating expense question. Sorry if I didn't understand, were there any one-time FICA charges, et cetera, in March that would suggest maybe in the June quarter overall OpEx dollars might be not up as much as one might expect?

Sandeep Nayyar: Typically, the FICA ramps up in Q1, and typically somewhere – if you look at the impact of the two items I highlighted from Q4, FICA and the shut down we had in the fourth quarter of last year, each were roughly around \$300,000 to \$400,000. FICA starts tapering towards the end of second quarter but more so in the third quarter.

As a company we are growing, and we are continuing to make investments in people and looking for our future growth. So depending on how the year evolves, I was just giving a rough number for modeling of what the growth would be each quarter. But again, the amount would really depend as how the year progresses.

Steve Smigie: OK. How should we think about seasonality for June at this point?



Sandeep Nayyar: Well typically, our second quarter has grown and historically – but it's very hard to predict right now. We can just take a quarter at a time but if you look at it historically it has grown in single-digits.

Balu Balakrishnan: Yes. Q2 and Q3 are usually growth quarters for us.

Steve Smigie: OK. Q3 this year, probably an exceptional year in terms of strong growth, because you are going to have a meaningful ramp there in overall rapid charging?

Balu Balakrishnan: We do expect a meaningful revenue contribution from rapid charging in Q3 and Q4.

Steve Smigie: OK. Then within your industrial business, outside of – just let's say LED and the Concept businesses – how should we think about growth in those other areas, which I assume is areas like air conditioning, standby power, that stuff. What should we be thinking about the growth in industrial outside of LED business and Concept?

Balu Balakrishnan: We classify air conditioning under appliances, which is part of the consumer market.

Steve Smigie: Consumer, OK.

Balu Balakrishnan: I know some people put the appliances in the industrial, but – it does have industrial characteristics, because of the high margin and very stable business. So in the industrial business if you take out the LED and CT-Concept, which is the high-power business, you have motor control, you have process control, you have UPS power supplies, you have tools, and so on and so forth.

Very, very fragmented. Very, very large number of applications. High margin, a lot of customers in there.

That part of the business has a steady growth but you wouldn't see a very sharp growth. We saw some of it in smart meters for a while, and that's still growing, but it's not as high growth as it had initially when it was being



adopted in many different countries. I would say that will grow consistently but no dramatic growth in those areas.

Steve Smigie: OK. And then just turning to the ASP on rapid charging, you guys have said it's 3 to 4 times your traditional thing. Does that get you to something maybe north of \$0.50, at least initially?

Balu Balakrishnan: I really can't comment on that one because pricing is a very sensitive issue in the mobile market. So I'll have to refrain from commenting on that.

Steve Smigie: OK, can you talk a little bit about your – how you see market share playing out in rapid charging? Is it potential that you could have, say, three or four guys, everybody gets a 25 percent share. Is there room for multiple guys to get in there?

Balu Balakrishnan: I am sure more than us. It is a very, very competitive market, so I would be surprised if it is less than four or five guys in that market getting a significant part of the share.

It's just the way the market is. They like to have multiple sources just to keep everybody honest in terms of pricing.

But we think we'll get our – at least – our share or maybe unfair share, depending upon how things go. We certainly we think we are ahead of them in the QC area, but as I said there are other protocols and only time will tell which one will become most prevalent. But whatever protocol becomes prevalent, we will support it and we will support multiple protocols if that's what it takes.

Steve Smigie: OK, great. Thank you.

Balu Balakrishnan: Just to be clear, the money is actually in the power conversion portion. The protocol itself is a relatively inexpensive part of the equation.

Steve Smigie: OK. Thanks.

Operator: We have no further questions at this time. I will turn the call back to our presenters.



Joe Shiffler: All right. Thanks very much. Thank you everyone for listening.

There will be a replay of this call available on our Web site –
investors.powerint.com. Thanks again for listening and good afternoon.

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

END