Power Integrations Fourth Quarter 2023 Earnings Call – Feb. 8, 2024
Corrected Transcript

Joe Shiffler - Power Integrations Inc - Director - Investor Relations and Corp. Communications

Thank you. Good afternoon, everyone. Thanks for joining us. With me on the call today are Balu Balakrishnan, chairman 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 for the fourth quarter 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 today's 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 are discussed in today's press release and in our most recent Form 10-K filed with the SEC on February 7, 2023.

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

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

Thanks, Joe, and good afternoon. As expected, fourth-quarter revenues were lower as a result of soft demand and elevated supply chain inventories, and we expect first-quarter revenues to be about flat sequentially, reflecting these continued headwinds. However, while channel inventory is still above normal, it fell by more than a week during the quarter as sell-through exceeded sell-in by a considerable margin. In dollar terms, we are at our lowest level of channel inventory in two years, and we expect a further decline in Q1.

We are especially encouraged by lower inventories related to the appliance market, which accounts for the bulk of the consumer category. Distribution sell-through for consumer was up sequentially in Q4 and far exceeded sell-in, bringing the channel inventory back to normal in terms of weeks and to the lowest level in eight quarters based on dollars. End customer inventories have also improved considerably over the past several quarters and we are seeing an uptick in bookings from customers that were largely dormant throughout the last year.

While appliance demand is clearly being hampered by the downturn in housing, our consumer revenues in 2023 were below even the pre-COVID levels of 2019, suggesting that we are shipping well below end demand and could be poised for a recovery in 2024. In fact, we expect consumer to lead the way as we begin to see overall sequential revenue growth beginning in the June quarter, with a more meaningful improvement in the second half of the year.

While 2023 was a difficult year, with revenue down more than 30%, there were pockets of growth in several areas that are key to our long-term growth strategy. Our high-power [gate] driver business had a second consecutive year of growth, even as the broader industrial category was down almost 40%. We had an outstanding year in terms of design wins in high power, with a projected annual revenue value of the design wins up more than 70% from the prior year. Renewable energy was the

major driver of that growth, with significant wins not only in the utility-scale solar and wind markets, but also in the adjacent high-voltage DC transmission market. On our July call, we announced a major multi-year award for an undersea link connecting North Sea wind farm to the mainland. In Q4, we received an initial multi-million-dollar purchase order for that design as the project prepares to ramp up later this year.

Another bright spot in 2023 was India, where revenues increased year over year and are approaching 10% of total sales. This is not just a result of manufacturing moving out of China, but also a rising level of in-country design and production for the domestic market, including a rapidly expanding middle class and modernizing infrastructure. We are participating in a number of ways, with significant design wins in 5G fixed wireless, smart utility meters, and appliances, including ceiling fans, which are converting to brushless DC motors utilizing our BridgeSwitch motor driver ICs. We also have a strong pipeline of design opportunities in electric transportation in everything from two wheelers to buses and locomotives.

Speaking of which, we made tremendous progress in our automotive business in 2023, racking up wins and expanding our design pipeline in high-voltage EV applications, such as drivetrain emergency power, 12-volt battery replacement, and micro DC-DC converters. Our automotive qualified products are extremely well suited for these applications, which not only require high efficiency, but also benefit from the reliability and the space savings off of a low-component count design.

Eight car brands are now shipping vehicles using InnoSwitch or SCALE-iDriver in traction inverter applications. Meanwhile, our pipeline of EV design opportunities grew by more than 80% in 2023, with sample stage designs at various levels of progress across all regions and most major Tier 1s and OEMs. We expect several such designs to start production later this year.

Another 2023 success story was GaN, not only in terms of revenue growth, but also key technology breakthroughs, including the introduction of 900-volt and 1,250-volt GaN switches. While other suppliers are limited by the capabilities of foundry-based GaN technology, we designed our proprietary GaN to support higher voltages, and we expect to announce the next step on the roadmap in the near future. GaN has significant cost advantages over silicon carbide in the voltage and power ranges that it can address, and we expect the overlap between two technologies to increase over time as we further advance our technology and bring out more system-level GaN products.

As indicated by recent M&A activity, market participants are recognizing the potential of GaN to be a transformational technology in power electronics, with huge opportunities in markets such as automotive, data center, appliances, and mobile devices. Proprietary technology and know-how in high-voltage GaN are scarce assets, and Power Integrations has more than anyone else in the market.

Our latest GaN product introduction came last week with InnoSwitch 5-Pro, which will ship with the choice of 750- or 900-volt GaN switch. InnoSwitch-5 is a shining example of our system-level approach to power conversion technology, marrying the efficiency of GaN with a novel control scheme that implements high-efficiency zero-voltage switching, or ZVS, with only a single GaN switch versus two switches required in typical ZVS designs. The combination of GaN and ZVS delivers efficiency of better than 95%, with very low component count, enabling exceptional power density for high-power chargers up to 220 watts. We demonstrated this capability with a new reference design, showing 140-watt USB PD charger with a volume of just 4.2 cubic inches, less than half the size of standard 90-watt notebook adapter with over 50% more power.

To conclude, while 2023 was a challenging year and the current down cycle has been severe, we have weathered it by sticking to our playbook that has served us well in past downturns. That includes building wafer inventory to protect our dedicated foundry capacity and to be ready for a strong upturn. It includes buying back stock at opportune moments, as we did in Q4, and it includes prudent expense control along with continued investment in GaN, EVs, motor drive, renewable energy, and the India market. And while the slope of recovery is uncertain, we see good indications that sequential growth will start in the second quarter, with a better second half to follow.

With that, I'll turn it over to Sandeep for a review of the financials.

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

Thanks, Balu, and good afternoon. Fourth-quarter revenues were just under $90 million, in the middle of our guidance range, while non-GAAP earnings were $0.22 per diluted share, above the level implied in our guidance, thanks to lower operating expenses and a $0.04 tax benefit. For the year, revenues were down 32% to [$445 million], while non-GAAP earnings were $1.29 compared to $3.29 a year ago.

While this was a challenging year from a financial perspective, we believe we have managed the business prudently while staying focused on the long term, as always. We held non-GAAP expenses growth to less than 2% in spite of high inflation without reduction in employee compensation or benefits. In fact, we gave normal raises last year and continued our practice of paying an above average portion of the cost of benefits, despite extreme price pressures in the insurance market. As Balu noted, we maintained this expense discipline while making necessary investments for long-term growth, including our automotive efforts, our expanding presence in India, continued development of our GaN technology and the products that will double our SAM by 2027.

I will quickly recap the Q4 results and the outlook, and then we will open it up for questions. Revenues for the quarter were just under $90 million, down 29% from the prior quarter, with all four end market categories sequentially lower.

As expected, communications was down the most with a decline of about 40%. As we noted on last quarter's call, we had significant restocking in the previous quarter by distributors serving the Chinese handset supply chain. We also saw a steep decline in Q4 related to an inventory correction at a non-Chinese handset customer. The correction also affected tablets, which drove a decrease of about 35% in the computer category.

Industrial and consumer revenues were each down about 20% from the prior quarter, again driven by elevated supply chain inventories and soft demand. Revenue mix for the quarter was 35% industrial, 29% consumer, 27% communication, and 9% computer. Distribution inventory ended the quarter at 10.5 weeks, down more than a week from the prior quarter, as sell-through exceeded sell-in by about $12 million.

Non-GAAP gross margin for the fourth quarter was 52.7%, down 60 basis points from the prior quarter, driven mainly by lower manufacturing volumes, partially offset by a more favorable end market mix. Non-GAAP operating expenses for the quarter were $40.3 million, down $1.5 million sequentially and below our forecast as we continue to manage spending carefully, while prioritizing investments in our long-term growth.

As noted earlier, we recognized a tax benefit in the fourth quarter from the reversal of FIN 48 reserves, which contributed about $0.04 cents to the non-GAAP earnings per share of $0.22. The FIN 48 reversal had a larger effect on GAAP results resulting in a negative GAAP tax rate for the

quarter and GAAP earnings of $0.25 per diluted share. Weighted average share count fell by about 0.5 million shares to 57.3 million, driven by repurchases.

Cash flow from operations for the quarter was $16.3 million. Inventory days were at 344 at quarter end, up 114 days from the prior quarter, driven largely by the lower revenue number. As a reminder, the bulk of inventory is held in wafers, which combined with the fungibility of our products across customers and applications, results in minimal risk of obsolescence. We expect inventory days to trend down as revenue starts to recover in the June quarter.

Our largest use of cash in the fourth quarter was share buybacks. We repurchased 680,000 shares during the quarter, well above 1% of our shares outstanding, for $47.4 million. The average price per share was just under $70. Other uses of cash during the quarter included $6 million for CapEx and $11 million for dividends. For the year, cash flow from operations was $66 million, while CapEx was $21 million, just below our model of 5% to 7% of sales. We returned $99 million to stockholders in the form of buybacks and dividends during the year, more than twice our free cash flow.

Turning to the outlook, we expect revenues for the first quarter to be $90 million, plus or minus $5 million. We expect sell-through to again exceed sell-in, resulting in another decrease in channel inventory and clearing the way for sequential growth in the June quarter.

Non-GAAP gross margin for Q1 should be approximately 52.5%. I expect a rebound in gross margin in the June quarter, driven by the favorable yen exchange rate and higher manufacturing utilization as we begin to convert more wafers to finished goods. I also expect a better mix as the industrial and consumer markets begin to recover.

Non-GAAP operating expenses should be around $42.5 million in the first quarter. The increase from the fourth quarter reflects headcount increases, resumption of FICA taxes, and higher premiums for employee benefits. For the full year, I expect non-GAAP OpEx growth to be in the high single-digits. Finally, I expect the non-GAAP effective tax rate for the first quarter and the year to be around 7%.

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

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

I guess maybe looking into next quarter, if you guys could kind of illuminate inventories, how you see the dynamic per end market playing out. And I don't know if you want to force rank those, versus flat, what's up or down would be great.

Sandeep Nayyar - Power Integrations Inc

As we had indicated, the overall channel inventory came down [to] about 10.5 weeks, but the highlight was that the consumer and the computer segment came down to what I'd call normal levels. We are still a little elevated in industrial. And considering that the revenue is at normal levels based on this current level of revenues, which bodes really well for what it looks like, as I've mentioned about the consumer segment in the second quarter and further going forward. So I expect the channel inventories to further come down and be below 10 weeks at the end of the first quarter.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

No, I was actually talking about the end markets. Where do you have the most inventory? Or how do these dynamics play out into March? And then force rank versus flat, which might be up and which might be down in March?

Sandeep Nayyar - Power Integrations Inc

Chris, that's what I was talking about, that the channel inventory, that's where our guidance is: what's in the channel and what's, as a result, is probably getting impacted with the customers. That consumer and consumer category are down to normal levels in the channel, which means things in the end state has become normal, while industrial is still very elevated and is above the level and that's as a result. What I also tried to mention was that considering it's at a such low level, and if consumer and computer are already in the channel at that level, as revenue increases, it actually will become even much below our level.

Balu Balakrishnan - Power Integrations Inc

You have to remember that, by weeks, if you're normal -- in dollar terms, we are well below normal because our weeks are based on a $90-million revenue. As revenue grows, it is really problematic for the customer if it is that low. They have to buy products, which is good for us.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Okay, yeah, I hear you. Maybe something on capital allocation. So nice buybacks in the quarter. Sandeep, I think if this chip thing doesn't work for, you can be a day trader. But what are you guys doing on the capital allocation front? More buybacks at this level, if you could? And/or would you entertain something like M&A? Have you looked at that? How are you feeling on this, particularly for the cyclical bottom?

Sandeep Nayyar - Power Integrations Inc

Chris, as we have talked about, we have a four-pronged approach to capital allocation, the first being the internal investments. And as you can see, we are investing in working capital as well as, you will see from the expense investments that we talked about, about high single-digit for next year, we've tightened our belt over the last few years. And we need to make more investments. So you're going to see, even though we held back in our headcount in 2023, you will see us see quite a bit of investments in headcount to support the initiatives that Balu and I have talked about, whether it be India, whether it be automotive, whether it be motor control and in GaN.

The second thing is M&A. And I think as we've talked about, we are always looking at that angle. And we always will look for either technologies that will complement us or which can help us expand our SAM. So that is, I think, something that we do all the time and we're continuing to look at that. The buybacks is really an opportunistic story. I presume you liked the buyback that we did last quarter and the price of it. We always do that. And it's not that we are rigid; it's opportunistic. And we tend to buy as the stocks comes back, and I think we're not going to change that.

And the last one was the dividend. And you know a quarter ago or so, we upped the dividend again. So I think -- we've been following the four-pronged approach now. Some things happen more frequently than the others, but it is something that is looked at every quarter with the Board. And I don't think anything will change in that aspect of it.

David Williams - The Benchmark Company - Analyst

First, it sounds like you're expecting June to be a bit better and we've heard that from others. I guess maybe if you could talk about what's giving you -- maybe on this inventory side, but what's giving you that confidence? And maybe if you could speak to the booking velocity across the end markets and how those are trending and maybe what you've seen thus far into the year.

Balu Balakrishnan - Power Integrations Inc

Well, there are several reasons we feel good about Q2 being a growth quarter. First one is the inventory will be less of a headwind, now it's getting closer to normal. And as a result, we expect that this year will have a normal seasonality, up from Q1, especially in consumer because of the air conditioning. Consumer could even be stronger than normal because of low levels of channel inventory that we talked about.

We are at normal levels of weeks, but based on a very low revenue number. And as you know, air conditioning peaks in Q2, and we have a really good exposure to air conditioning market. Also, we see some recovery in the cell phone customer, where, if you remember, they canceled some orders starting in Q3. And I think that inventory correction will be completed in Q1. We did have a slight uptick in Q1, but we expect it to come back to a higher level in Q2. And that also helps us in terms of growth in Q2. The industrial market, which has been very soft for a long time, we think will begin to recover sometime in Q2. So that will also contribute, we believe.

Finally, the last one, which is probably the most important, is that our order trends are improving. January was our best month of booking since last spring. And February is also off to a very good start. Of course, the next two weeks will be soft because of the Lunar New Year. So we'll see how things will come back after the holidays. But all of the trends support Q2 being up from Q1.

David Williams Williams - The Benchmark Company - Analyst

Great. Very great color there, certainly appreciate that. Secondly, I wanted to see if there's maybe a way to think about your design wins. You've had a very healthy pipeline through the downturn. Is there a way to come to think about that contribution, maybe in the next 12 to 18 months, from the design wins that you've won in this more recent period?

Balu Balakrishnan - Power Integrations Inc

You can't directly correlate because the design wins come in many different shapes and sizes. And also, you have to remember, some of them will be replacing designs that are in production, but going the end of life. So you can't directly correlate.

But directionally, it's a very good trend, and we are really excited about that. If you look at literally almost all markets, except maybe cell phones, which, as you know, is not a growth market, we are seeing significant design win increases that will bode well for the future. So the design wins will convert into revenue in the next one to three years, depending on the market. So that bodes well for the market. Of course, all of this is tempered by the macro situation. So we are waiting for macro to turn around. But the big, bright star is that our inventories, which should come back to normal in all markets by the middle of this year, which means that we will start seeing that demand as it happens.

Ross Seymore - Deutsche Bank Securities Inc - Analyst

Just wanted to ask a high level one first. What do you think the normalized level of demand is for the company, whether you want to talk on a quarterly basis or annual basis? And I know that there's a ton of assumptions underneath that and it's not the easiest to answer, but any shot would be appreciated.

Balu Balakrishnan - Power Integrations Inc

Okay. I think we've answered this question in the last call. Our trend analysis would show that, if everything came back to normal based on our share gains and long-term market trend growth and so on, we should be really running at $150 million a quarter. However, it is unlikely, I believe, given the demand situation still being very weak, that it will happen in the second half of this year. It'll probably be sometime -- again, I don't know what the 2025 is going to be, but the earliest I can think of that we're getting there will be in the second half of 2025. And that's just a speculation on my part. It really depends upon demand and inventory levels all coming back to normalcy.

Ross Seymore Seymore - Deutsche Bank Securities Inc - Analyst

I guess a gross margin question, kind of slightly nearer term and then a little bit longer term. Sandeep, you do a good job of talking about trend through the year. I know you said the second quarter is going to be up. So I guess part A of the second question is utilization going up in the June quarter seems a little odd if you just look at basically a year of inventory on your books internally, and I know days in the channel is somewhat misleading at the bottom of the cycle. But how do we think about utilization? Why are you increasing given so much inventory on your books? And what's the trend through the year that you think you're going to have on gross margin if the back half revenues do indeed improve?

Sandeep Nayyar - Power Integrations Inc

First of all, we keep bulk of our inventory in wafer form. And when I talk about utilization, yes, we do have some of our equipment at the fab part, but that's limited. But the bulk of the equipment is on the back end, which is the testers, handlers, more machine. So the converting of the wafer into finished goods leads into higher utilization, the test-outs, and that's what helps us in the margin.

But I think the bigger piece that is going to help us is going to be the yen. The yen has really moved quite a bit up in our favor with the dollar strengthening, but the funny part is that if you go a year back, it was in the 140s, then it dropped down to the 130, and then it's gone back into the high 140s. So in Q1, as you turn the inventory, it's getting impacted by when it went down. But starting in Q2 and Q3, the favorability starts coming back and the yen will contribute quite a bit there.

Now we are also getting a mix benefit. As we have talked about before, we're going to see more consumer and industrial as the year goes by and less communication. For the year, I think I've talked about before, we should be somewhere in the 53.5%, 54%. That's the modeling I can do, with the pluses coming from the yen, mix and volume, and the minuses coming from input costs. The input costs are still going up, wafer and other costs. But as I said, even though I'm doing this high-level modeling, the mix is always the wild card.

Matt Ramsay - TD Securities Inc - Analyst

Balu, obviously we're working our way through the inventory correction across a number of markets. Your company is going through it no different than a lot of others. And then we had a reset to the model on this call that we did three months ago and you guys kind of walked through how you plan to progress through getting the inventory down and what the model might look like.

I guess my biggest picture question is, as we've gone through the last 90 days, what's really changed other than you've progressed and started working the inventory down and we're closer to coming out the back end of it? But any big differences in the last, say, 90 days as to what you expected to play out? I mean, it's not fun, but it's tangible progress. So I'm just trying to think if anything surprised you in the last 90 days or so.

Balu Balakrishnan - Power Integrations Inc

Actually not. It's very much what we expected. We had said Q1 will be flat to potentially slightly up. But we really want to get the inventory down as much as possible. So we are happy that the inventory will come down again in Q1 based on our shipments, which is still below the demand, which really puts us in a good place going forward from Q2 onwards.

And the only other positive thing I would say is the consumers are really coming back. The consumer market is really coming back. We can see the orders being placed by people who really stopped ordering for almost a year, little more than a year now. They've completely stopped ordering and they are now coming back. That tells us that they're out of inventory as well. It's not just our channel inventory. Our end market inventory is also cleared up in consumer.

The consumer is in very good shape. Computer is also very close to normal in terms of inventory. It's the industrial that has extra inventory. And we believe that should come down to normal sometime in the second quarter. And we should start seeing bookings from industrial market sometime in the second quarter. I don't know exactly when. So it's not that different from what we anticipated in Q4. And I think for the whole year, we still expect Q2 to be the growth quarter and second half to be even better in terms of growth. And we think we could exit the year with a strong year-over-year growth in Q4 because of the comparison to the last year.

Sandeep Nayyar - Power Integrations Inc

Matt, to the other point, to add, is that nothing has changed in terms of what we were thinking for the year. The good part is it's playing out as we wanted. Plus, other people, like, if you see what Whirlpool said about the second half of 2024, obviously, they're going to see second half, we should see better a little earlier because of power supplies being made earlier. So it's good to see the validation of what we've been saying and how it is playing out, even from an outside party.

Matt Ramsay - TD Securities Inc - Analyst

Got it. No, thank you very much, both of you, for all the detail there; that was my initial read as well. It's really steady progress, but not a ton of things have changed, which is good in this kind of environment. I guess my second question is a little bit more specific, and it's in the auto market. I think there was some commentary in the script about the pipeline of design opportunities in the EV market being considerably up, maybe 80%, or something like that. If you guys could maybe expand on that a little bit, both the nature of the opportunities, and also if you win them, what the time to revenue could look like?

Balu Balakrishnan - Power Integrations Inc

To be honest, we are somewhat positively surprised by the level of interest we are getting on our products. I don't think we would have expected this couple of years ago. If you had asked us, we would have expected a much slower ramp of design activity. So it really bodes well for the long term. I'm getting more and more comfortable that this could be $100 million business within the next five years. I know it has a long design cycle.

But as we mentioned, we are already in production cars today at eight different models in the market -- eight different customers, I should say. And that's quite surprising how quickly they adopted our products. Usually, the design cycles are very long. Many customers are cutting their design cycle short to use our products simply because of the benefits we bring, whether it's size benefit, the component benefit, the component count benefit, the reliability benefit, and so on.

And the other thing that's really surprising to me is even OEMs were historically been the hardest to address. Like, for example, the Japanese OEMs are much more open because of the value we bring to this market. And that's true with not only Japanese, but also with the European customers, and of course, the Chinese customers. So everything looks really good for automotive and that's probably the most exciting growth area we are looking at right now.

Tore Svanberg - Stifel Financial Corp - Analyst

My first question for you, Balu. So all downturns are different, that's pretty clear, but most people remind us that the upturns are almost always the same, meaning customers start to ramp pretty quickly. So anything that you're seeing this year that would be different? I mean, given your inventory comment, I assume that you're sort of ready for a stronger ramp as and when it comes.

Balu Balakrishnan - Power Integrations Inc

Yeah, that's a good question. I wish I knew the answer. I just don't have a good feeling for the ramp of the recovery. I know it's going to recover. We think second half will be really good, but we don't know by how much. I wish I could really give you that answer. Now, let me talk about some areas where we are really feeling good. We already talked about automotive, but that's more longer term. But if you look at high power, the renewables are doing extremely well. And so, we expect, again, another growth year on high power.

The HBA [home/building automation] market, which was very weak last year, we expect that to come back strong this year. Electric meters are doing extremely well. Electronic meters, I guess, are doing extremely well this year. So there are several pockets in industrial that's going to come back, so I'm feeling really good that industrial will come back this year, even though they still have some inventory. But when they come back, we will see a significant growth there.

Consumer, we already talked about. I think, there, the inventory is clean. We're going to start seeing the demand, but the demand to the extent we can measure is still weak. So the growth in consumer in the near term is going to come from clearing of inventory, not necessarily because the demand is increasing. We don't see that yet. Now, that doesn't mean in the second half, it won't come back strong. We just don't know about that. But just the inventory alone clearing up will help us grow nicely in that market.

Of course, we've talked about cell phones before. That is a declining market; we don't expect that to grow over the next few years. All of the growth is going to come from the other three markets: the computer, consumer, and industrial.

Tore Svanberg - Stifel Financial Corp - Analyst

Very good. On GaN, you highlighted several segments of applications. The one segment that GaN could do well in, and you mentioned, is data center. But we haven't quite heard enough from POWI as far as the traction you're getting there. So are you being conservative on when you penetrate that market? Do you already have traction there? Any update on GaN for data center would be great.

Balu Balakrishnan - Power Integrations Inc

Good question. First of all, if you look at our SAM in 2027, if you go back to our analyst day presentation, we presented that we would double the SAM to $8 billion in 2027. Roughly about $3 billion of it will be GaN SAM in that year. Of course, the GaN SAM will continue to increase. And out of that $3 billion, half of it we already have products for. We have products already in the market to address $1.5 billion of it. The other $1.5 billion comes from data centers, automotive DC-DC converters and onboard chargers, telecom infrastructure like base station power supplies, and so on. For that, we are working on products that are not yet ready. And until it's ready, we don't engage with customers; we have to get those products out.

Now, you may be wondering: how come it takes us longer to get to market than some of the discrete guys? Well, if you have a discrete transistor, you can go broadly in any market you want. But the problem with a discrete model is that then it becomes a commodity. You have a pin-compatible device that can be replaced by anybody. Especially the Chinese guys, I think, are going to be incredibly aggressive in pricing the discretes.

We just don't see us in the discrete market; it's just not the right business model for us. We have never been in the discrete market. And the way we make the margins we make compared to discrete guys is by having a system-level solution that brings significant advantages over discretes.

So that means it takes longer for us to come up with the products. It's the innovation of packaging, innovation of control schemes, there's a lot of things that we have to cover when we do a system-level product. So it takes longer, that's the bad news. The good news is when we come out, we have a very compelling product that can make very good margins, which is really hard to make with discretes. So that's why it takes longer. It's not that anything has changed. We did expect it to take some time. That's why we don't add that $1.5 billion of SAM until 2027.

Tore Svanberg - Stifel Financial Corp - Analyst

Just one last one, Balu, on the automotive. You talked about the design wins and so on and so forth. But from a revenue and timing perspective,
could this be sort of, like, tens of millions in '25? Or is that still more of a '26 timeline?

Balu Balakrishnan - Power Integrations Inc

I would think by 2025, you should be -- let's see. It could easily be, I would say, more than $10 million. I don't know exactly how much it will be. I am a lot more comfortable saying, within five years, we would cross $100 million.

Joe Shiffler - Power Integrations Inc - Director - Investor Relations and Corporate Communications

Okay. Thanks, everyone, for joining us this afternoon. There will be a replay of this call available on our website, investors.power.com. Thanks again, and good afternoon.