

**Power Integrations Third Quarter 2023 Earnings Call – Nov. 7, 2023**  
***Corrected Transcript***

**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, Chairman and CEO of Power Integrations, and Sandeep Nayyar, our Chief Financial Officer.

During the call, we will refer to financial measures not calculated according to GAAP. Non-GAAP measures for the third 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, vision, view, forecast, anticipate, prospects and similar expressions that look toward future events or performance. Such statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied. Such risks and uncertainties are discussed in today's press release and in our most recent Form 10-K filed with the SEC on February 7, 2023.

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 it over to Balu.

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

Thank you, Joe, and good afternoon. Third quarter revenues were up 2% from the prior quarter but came in at the low end of our guidance range at \$126 million. And for the fourth quarter, we expect a sequential decrease to \$90 million at the midpoint of the range.

Our results and outlook largely reflect the broad-based weakness cited by many of our peers this earnings season. In the industrial category, we are seeing strength in renewable energy, thanks to recent design wins, but the broader industrial market has weakened as several of our peers have noted.

The appliance market, which now accounts for about 1/4 of our revenues, has been affected by the slowdown in home sales and the residual effects of the pandemic when many appliance purchases were pulled forward.

We also had an unexpected cancellation late in the quarter, affecting both third quarter revenues and fourth quarter backlog in the computer and communications categories. We believe this reflects efforts on part of an OEM to reduce charger and component inventories.

Notwithstanding the short-term outlook, we continue to see strong design activity and design wins that position us well for the eventual upturn in demand, and we feel as good as ever about our long-term growth prospects. We are on track to double our addressable market by 2027, driven by electric vehicles, motor drive, renewable energy, expanding dollar content and a host of upcoming products featuring our proprietary GaN technology.

We are full speed ahead on GaN development, more confident than ever that GaN will not only overtake silicon as the technology of choice for most high-voltage applications but will also be a

more cost-effective and greener alternative to silicon carbide over the long term. Most GaN suppliers rely on the technology of a single foundry, leaving little room for differentiation and affording them no control over the technology road map. Our GaN is proprietary, which means that we not only control the road map, but also that we can tailor our GaN switch for optimal system performance in each application.

Our GaN technology is also unique, with characteristics that make it better suited for higher voltages than any other technology in the market today. In March, we introduced a 900-volt version of our GaN InnoSwitch products. And last week, we took the next step on the roadmap with our latest InnoSwitch featuring a 1,250-volt GaN switch.

Higher-voltage InnoSwitch ICs are ideal for many industrial applications and for geographies with unstable mains voltages, as well as power supplies in 400-volt electric vehicles. These higher voltage GaN technologies will also enable us to expand our SAM with new products that address higher-power applications up to 10 kilowatts such as EV onboard chargers and DC-to-DC converters and a range of industrial applications.

Many of these applications are served today by silicon carbide because there is no viable alternative that delivers the necessary level of efficiency. However, we have products in our pipeline that will offer a system-level GaN solution at a much higher level of performance than silicon carbide.

GaN is fundamentally more cost-effective than silicon carbide because it uses lower-cost raw materials and requires a tiny fraction of the energy needed to produce silicon carbide, which is processed at extremely high temperatures. That also makes GaN a more sustainable technology than silicon carbide, which squanders a portion of the efficiency benefits in its own manufacture.

Our GaN road map does not end at 1250 volts. We expect to introduce even higher voltage GaN in the near future, and our vision includes the potential to drive GaN beyond 10 kilowatts, making it a viable replacement for silicon carbide in a wider range of applications.

While pushing GaN beyond 10 kilowatts is a longer-term proposition, our current GaN products are making significant gains in power supplies. We won more than a dozen smartphone and notebook designs in Q3, including a 100-watt in-box design for a top notebook OEM which uses our HiperPFS-5 power factor chip in tandem with InnoSwitch, both incorporating GaN switches.

We won an even greater number of GaN designs in non-mobile applications including a multi-million-dollar design for a new platform at a top European appliance OEM as well as designs in home automation, lighting, audio and industrial controls.

GaN also features prominently in our roadmap for motor-drive products and will enable us to more than double the addressable market for our BridgeSwitch products. Meanwhile, current BridgeSwitch products, which incorporate our proprietary silicon FREDFET technology, continue to win designs despite strong headwinds in the appliance market.

In addition to exceptional efficiency in active mode, BridgeSwitch offers very low standby consumption, which is attracting strong interest from appliance customers in light of upcoming changes in the European Ecodesign standards.

As we mentioned last quarter, the allowable standby consumption for a wide range of electronic products will be reduced beginning in 2025, and we expect the new standards to be especially impactful in the appliance market.

The low standby performance of BridgeSwitch perfectly complements our EcoSmart technology, which has helped us win a dominant share in appliance auxiliary power supplies. In September, we introduced our latest EcoSmart product, LinkSwitch-XT2 SR, which offers no-load consumption of less than 5 milliwatts. In Q3, we won a design at a top European customer for chipsets combining LinkSwitch-XT2 SR and BridgeSwitch in a refrigerator compressor scheduled to begin production in the middle of 2024.

At a higher level, customer interest in our products has never been stronger. On last quarter's call, we said that we had added more potential revenue to our design pipeline than any quarter in our history, and we beat that record again in the third quarter. This reflects the broader range of applications we are addressing, and our rising dollar content as evidenced by the fact that our average selling price has increased by almost 70% over the past 6 years.

And we are well positioned for growth once demand returns, thanks to recent design wins, including a Q3 design win that will give us a significant role in India's 5G fixed wireless rollout which is expected to ramp over the next several years.

Finally, we demonstrated the superior efficiency and ruggedness of GaN InnoSwitch ICs last month in the Bridgestone World Solar Challenge, where we co-sponsored a team of engineering students in a race across the Australian outback in a solar-powered car.

With the help of our applications team, the racers implemented a DC-to-DC converter that achieved almost 96% efficiency at full power and a 50% improvement in light load efficiency compared to an earlier solution, greatly reducing the car's energy use. I'm happy to report that of the nearly 30 entrants in the race, the POWI-sponsored team was 1 of only 12 to complete the 7-day [3000] kilometer journey.

To conclude, in spite of the tough demand environment, our long-term outlook is unchanged, and we are focused on what we control, sticking to the playbook we have followed in every downturn. We are keeping inventory elevated to retain foundry capacity and to be ready for the strong upturn, knowing that we will be among the first to see the turn when it comes.

We are managing expenses prudently but investing in the products and technologies that will drive our long-term growth, such as GaN, automotive, motor drive and our next-generation gate drivers. And we are buying back our stock when it's down and growing our dividend, knowing that we will continue to generate strong cash flow as revenues recover.

With that, I will 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. In the face of the weak demand environment, we are managing expenses prudently while continuing to invest in the opportunities that will drive our long-term growth. We are also moderating our manufacturing volumes but as always, we are cognizant of maintaining foundry capacity and having inventory to respond to an upturn when it comes.

Revenues for the third quarter were \$125.5 million, up 2% from the prior quarter and down 22% year-over-year. On a sequential basis, the communication category was up mid-teens, driven by design wins and channel restocking associated with the China handset market. Chinese OEMs, their charger ODMs and distributors had run at unsustainably low levels of inventory over the past several quarters, and we view the restocking as a further sign of normalization in that market.

The industrial category was also up mid-teens sequentially driven by high-power, where we have seen strong growth in utility-scale solar. Automotive, while still small, was also up from the prior quarter. Computer revenues were down more than 30% sequentially, driven by tablets and to a lesser extent, notebooks and aftermarket charges. Consumer revenues were down mid-single digits, driven mainly by seasonality in air conditioning and the continued softness in the overall appliance market.

Revenue mix for the quarter was 32% industrial, 32% communication, 26% consumer and 10% computer. Non-GAAP gross margin of 53.3% was modestly below our expectation due to end market mix, but nevertheless increased by 150 basis points from the prior quarter driven by manufacturing efficiencies and the weaker yen.

Distribution inventory ended at 11.6 week, up 1.5 weeks from the prior quarter driven primarily by the channel restocking for China handset customers, as mentioned earlier, while distributors for other end markets remain at elevated levels due to weaker sell-through. However, we did see a reduction in channel inventories in October.

Non-GAAP operating expenses for the quarter were \$41.8 million, down more than \$2 million sequentially and well below our forecast as we continue to adjust the pace of hiring and manage discretionary spending carefully.

Non-GAAP operating margin for the quarter was 20%, up almost 4 points from the prior quarter. Non-GAAP earnings were \$0.46 per diluted share, up \$0.10 from the prior quarter.

Cash flow from operations for the quarter was \$26.7 million. Inventory dollars on the balance sheet were essentially flat from the prior quarter and rose by 4 days to 230 days at the end of quarter end.

Uses of cash during the quarter included \$8 million for CapEx, \$11 million for dividends and \$2 million for share repurchases. The buyback had \$73 million remaining at quarter end and has been significantly more active since the end of the quarter as dictated by our preset price-volume matrix. As noted in our press release, our Board has increased the quarterly dividend to \$0.20 per share beginning with the fourth quarter payout in December.

Turning to the outlook. We expect revenues for the fourth quarter to be \$90 million, plus or minus \$5 million. Non-GAAP gross margin should be similar to the Q3 level of 53.3%. Non-GAAP operating expenses should be around \$42.5 million. That puts us on a course for a full year expense growth of only 3% despite this year's high inflation. Finally, I expect non-GAAP effective tax rate for the fourth quarter to be around 7%.

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

### **Operator**

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

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

Yes. The first question is on the channel inventory. Sandeep, I think you mentioned it was 11.6, obviously, up sequentially. But you also said you've started to see it come down this quarter. And I assume with the decline in revenues, it's going to come quite a bit more. So where do you expect the channel inventory to be at as you exit the year?

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

So I think we should get a benefit of at least 1.5 weeks or so in the coming quarter. As you know, this last quarter and the quarter before, I've been a little off. Normally, we generally have it. But I think the slowdown has kind of surprised us a little bit on the sell-through. But October was welcome, where the sell-through definitely exceeded the sell-in. So I think my guess is about 1.5 weeks down.

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

Very good. And related to that, I don't know if you want to answer or perhaps Balu here, but \$90 million is obviously half of where the peak was, actually even more so. And I'm just wondering if you have a good feel for where your true consumption is. Obviously, this has been going up for a few quarters now. You had a little bit of relief, obviously, from restocking perhaps in communications and PC. But any read you have on true consumption?

And some companies have talked about sort of ripping off the Band-Aid and just guiding down pretty hard for Q4. I'm sort of wondering if that \$90 million fits into that profile? Or do you think this could continue to be challenging into the first half of the year?

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

So Tore, the downturn has surprised us as it did surprise other people. We really thought when the bookings came out strong in March through May, we were on a rebound. And I think our customers thought that as well. And obviously, the demand didn't show up. And so now they have -- still stuck with inventories, especially in appliances and industrial markets. And -- so that's the reason why this has become a real reset in revenue for us.

So in terms of what is the true demand, if we go back to normal demand that is before COVID demand, our run rate should be in the -- somewhere in the \$150 million per quarter. We have done a number of modelings, that's what it would say. Why it is taking so long, nobody really knows other than the fact that the economy across the world is not doing so well. The interest rates are very high. So we know it's going to come back. The question is when. And that's what we are trying and struggling to figure out.

But we think this is an appropriate thing to do to reset the number. We certainly don't want to grow the disti inventory any further. And we are optimistic that it will come down a week, 1.5 weeks in Q4, and we expect things to start recovering from Q1 onwards.

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

Great. Just one last question on GaN, obviously, a bit more longer-term. So you talked about the 1250-volt GaN switch introduced last week. And you did say that obviously, that opens up the door for new applications, obviously, more markets and so on and so forth. When is the earliest something like that could be in production, a 1,250 GaN Switch?

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

The 1250 GaN Switch could be in production sometime next year because it usually takes 6 months to 9 months to go into production. The -- it will be mostly in the industrial market. But when we are able to build products that go to much higher power levels, then we'll get into things like onboard

chargers in cars and DC-to-DC converters in cars and also into data centers and so on and so forth. But that's 2 or 3 years away, we are in the process of developing those products.

As you know, everything we do is at a system level. And so it takes some time. However, the -- fundamentally, this technology is very attractive to replace silicon carbide in the 1,200-volt applications. As you may know, there is no silicon solution for that other than IGBTs. IGBTs are not very efficient. But the regular MOSFETs don't go to 1,200 volts. So the only solution you have today is silicon carbide, but GaN will replace silicon carbide, I believe, and provide much higher performance.

### **Operator**

And your next question comes from the line of David Williams from the Benchmark Company.

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

I guess maybe Balu, if you could talk maybe a little bit -- you noted there was a sizable push out from an OEM that impacted the third quarter and fourth quarter. Can you kind of give us a sense maybe of what the magnitude of that impact was as we think about the fourth quarter, and does that recover? Is there a chance for maybe that to rebound if demand materializes a bit?

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

Yes. Let me try and answer that question. I have to be very careful because we don't want to discuss any specific customer. But in terms of the magnitude, it's in the mid -- sorry, mid-teens dollars -- million dollars is the total magnitude. Part of that was in Q3 and a larger portion is in Q4. But Q4 reduction is also impacted by other items. This is only 1 of the 3 items. The other items being a slowdown in industrial and consumer demand itself.

The last one is we had an unexpectedly strong bookings and I mean, the shipments for stocking distributors for China cellphone business in Q3 that will not be there in Q4. And this is because the inventory was unusually low. And when the customers came back with the orders, the distributors were caught off guard. And so they scrambled to get some products from us and get the inventory built up to normal levels. And that's one of the reasons overall, disti inventory went up is because of the restocking of the cell phone business at disti.

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

And then maybe just another one here on the GaN. You've released it seems like quite a bit or many products over the last quarter. And it seems like the pace of those products is really picking up. And congrats on the new 1250-volt GaN. And we understand the applications for that. But I guess if you think about your customers and what you're hearing. Can you talk maybe a little bit of feedback of what the early thoughts have been with customers?

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

Yes. I think most of them are very surprised you can actually do GaN at 1250 volts. Our competitors have a challenge even doing 650 or 700 volts, they will struggle for a while. And our technology is uniquely suited for higher voltages. And so we were not only able to introduce a 900-volt product earlier this year. Now we are able to do 1,250. If you're wondering what is the magic about 1,250,

1,250 volts, that is derated by 80% will be 1,000 volts, which is what is needed in many applications, industrial applications and that's why we rate it at 1,250.

Now the technology is so flexible that we can even go to higher voltages and we plan to do so and offer even higher voltage products. And that's really the first time in the industry that GaN is able to go to these types of voltages. So what is the magic about that, is that, the 1,200 volt is quite an important development because when you go to 1,200 volts, you are in the silicon carbide world. And to the power level we can go to, which currently we think we can go to 10 kilowatts, we can replace silicon carbide in many applications.

And in the longer term, we believe with some breakthroughs in GaN we could go to even higher power levels and potentially become a major competition to silicon carbide but at a very competitive but more important, much higher performance than silicon carbide. And that's what is exciting about that. That 1,200 volt is a magic voltage where you are really getting into the silicon carbide world.

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

Sure. Is that the same process that you've used on your lower voltage or your lower power? Or was there an architectural change to get to that 1250?

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

Well, the fundamental device is the same, but obviously, there are a lot of innovations that get us to higher voltages. And as I said, we will be pushing it to even higher voltages which we are very confident we can get to and we've had a number of breakthroughs in that regard.

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

Okay. Great. And just one last one real quick. What do you think the turns business looks like for -- to hit the \$90 million midpoint there, Sandeep?

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

Turns for this -- we're in the low -- it's in the 20s.

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

20s -- low 20s.

**Operator**

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

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

Just given the kind of crazy inventory dynamics here, I was wondering if you can kind of maybe talk about the snapback, when you think it might come? Broad thoughts on March versus seasonality or even if you could, kind of the slope for next year?

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

That's a great question. We've been asking about that within ourselves and our customers. And unfortunately, there is no clear answer from our customers. But from everything we know, we are optimistic that Q1 will be higher than Q4, but we don't know by how much. And we are hoping that from that point onwards, it will continue to grow.

And at some point, it has to come back. This is not -- this is way below the trend line. I am surprised it's taking so long to clear the inventory, it's obviously because the demand is low or well below where everybody was expecting it to be. But the demand has to come back at some point. And I think when it comes back, we'll be in a fantastic shape because we are continuing to win a lot of designs in lots of areas, as you've heard from us. Whether it's electric vehicles or GaN-based solutions for industrial applications and so on -- and appliances with BridgeSwitch with appliances. We have a lot of designs.

And some of those designs have been delayed simply because of the inventory. They want to clear out the old products before they introduce new products. So many of these designs will go into production in '24. And so we are optimistic that maybe the second half of '24 will be the time when it will be -- it will come out strong.

However it happens, we are always the first ones to come out of it. And I think we'll come out very strongly just like we have done in the past downturns.

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

Great. And perhaps another one for you. When I look at the kind of GaN market overall, I think the sweet spot is -- for right now, at least, is the high-volume consumer market. I think you guys were maybe doing \$30 million or \$40 million there at one point. What's kind of stalled that here other than the macro? And when do you think we can get a meaningful kind of inflection there? And I think that was a part of maybe a gross margin story as well. If you want to talk a little bit more about gross margin. It was a little lighter this quarter and kind of how we should think about it a little further out.

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

Let me talk about GaN and then Sandeep will address the gross margin part. Actually, we are continuing to expand GaN way beyond the mobile phones. We started with mobile because that's the fastest way to get it designed in. But we are seeing a significant interest and design wins in appliances, industrial markets, computer markets. It's really going to replace silicon above 30 watts. We believe all of our new products -- I should say, most of our new products use GaN. And there's a reason for that is because it is a better technology, it will compete very well with silicon within the next year or so.

And so we are seeing a lot of interest even in markets I never thought would care about GaN, simply because of some of the advantages it brings. In some cases, it's efficiency, in some cases, the fact that we don't need a heat sink. In some cases, it's because it is -- you can get very low RDS(on), which is necessary. In many cases, it's because it can handle much higher transient voltages, GaN has this property that it doesn't have a sharp breakdown voltage. So if you exceed the breakdown voltage for short periods of time, it does not damage the transistor, which is incredibly useful if you're shipping products to places like India, where you have an unstable grid, and so we are seeing a lot of interest in all these different areas.



So I think the number of designs we are winning outside of mobile products, is higher than what we are winning within mobile. I think we talked about in the last conference call. And Sandeep, maybe you can handle the gross margin.

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

Yes. I think even though we are not totally certain on the revenue outlook for next year, we've done lots of different modeling and I think even with the different modeling, the best -- I'm looking at around 53.5% for non-GAAP for next year also. Now long term, as I had talked about even in the Analyst Day that the mix goes favorable. But remember, the yen is at a very favorable place. So if you have to model out, you have to model that the yen would come back to some normal levels, it's running at in the JPY 140s versus the normal levels of JPY 120.

So as the mix goes up and the yen moves back, I've always said we'll be on the higher end of the model. And I think even for '24, I think we'll be somewhere around 53.5%, which is towards the higher end of our model.

**Operator**

And your next question comes from the line of Matt Ramsay from TD Cowen.

**Matthew Ramsay** - TD Cowen, Research Division - MD & Senior Research Analyst

I'm trying to wrap my head around some of the commentary you gave around, I guess, a "new normal" at around \$150 million a quarter. And I wanted to dig into a little bit more as to what -- how you guys built that. Was it historical sort of top down? Was it bottom up based on sort of design wins that you see and content that you have. I just kind of juxtapose that against, I think, the peak quarter was \$115 million, thereabouts, in 2019 before the pandemic and things all got tight and things went higher.

So I'm just trying to get my head around like sort of the pieces that you put together to get to that sort of new normal if that's indeed what you're sort of forecasting that it might be.

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

Okay. So we have had several different ways of modeling it. I think finance has done their own model, marketing has done their own model, sales have done their own model. It's based on multiple things. It is bottom-up and tops down. We have done both ways.

In terms of bottom up, we have taken the -- what we call a normal consumption of various markets before COVID and then said, "Okay, if you look at historically, the market SAM is increasing by this amount." And then on top of that, we have additional products and designs that add to that. So it's not exact. But surprisingly, all 3 of them show that we should be at \$150 million a quarter, roughly speaking, other than, of course, everything else that's going on like wars and geopolitics and so on.

So if you just take all of that away, that would be our trend line as of 2023 with growth further into the future. So it's just a modeling exercise. It doesn't take into account all the crazy things that are going on around the world.

**Matthew Ramsay** - TD Cowen, Research Division - MD & Senior Research Analyst

Thanks, Balu, I appreciate it. Just a little bit shorter term. Sandeep, could you maybe break down the guidance for December by segment just given the amount of revenue dislocation here. I just want to make sure we're all starting from the right place.

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

Yes. I think what the decline you should see, as we talked about, the decline will be more significant in communication and computer, but all 4 segments will decline.

**Operator**

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

**Ross Seymore** - Deutsche Bank AG, Research Division - MD & Semiconductor Analyst

You talked about the first quarter, you hope is going to go up, and I know it's very difficult to predict these days. But if you're going to end your channel inventory at 10 weeks, and that's still at least 1, if not 2 weeks above your target range, why wouldn't we still have some burn there? And maybe even just seasonality to the extent that matters also being a headwind in 1Q?

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

Yes. So one of the things that we are expecting is a rebound. We talked about the cancellations in Q3 and Q4. And I think there will be a rebound on that. So that's where I think the primary -- that's not -- and that's through direct sales, not through the channel.

Also, if you really look at the level we are reaching in appliances, the channel inventory in appliances, we are hoping will, by Q4, come down -- the revenue guidance that we have given, will really come down to normal levels. That's my expectation in -- and if you really think where the appliances have come down, and I'm just using that as one category, the level is now even below the 2019 level.

So as Balu indicated, we are not certain of the total timing, but I'm hoping that in Q1, things like air conditioning start getting this build up, get more so in Q2 and then the rebound of this customer that I talked about, who had cancellations. Those are the reasons that I think Balu's saying will be better. What we are saying, we're typically seasonally down negative 1% or 2%, but we'll be better than that. So that's why Balu said, we'll be a little better than this quarter. And that's a directional because of these couple of items.

**Ross Seymore** - Deutsche Bank AG, Research Division - MD & Semiconductor Analyst

Prior question asked about the gross margin. What about the OpEx side of things I know you're pretty tight in the fourth quarter. How do you expect that in '24?

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

Yes. So this has been, as you can imagine, with all the inflation and everything has been a real challenge. And if you really look at our last 4 or 5 years, we've really tightened the belt. But we are at a point where we've got such exciting products in the pipeline. You've seen the announcement we

had with GaN, with the investments we are going to make there for automotive. We've got other investments for India and other places.

And so we have to make those investments. And that's why for next year, I think you should -- for modeling purposes, the expenses will grow 7% to 8% from the current year level. If you really think what is really happening here, we cut our expenses nearly \$7 million, \$8 million this year. And basically, I push that out next year with the normal raises, the higher health care costs that I'm sure you're aware of what's going on in that market.

So we are keeping tightening our belt how much we can, but we have to make those investments, which are strategic. And you know Ross, this is not the first time we've been in this tight situation. We've been here in 2011 and '12. And we had the same -- once it was a yen problem, then it was Nokia and RIM going away. But we invested. And you saw us come back, and I think this is going to be no different. And I think as Balu indicated, typically, these downturns have been about 4 quarters. This time, it's definitely longer. But they eventually turn, and we see it first. And every time we turned, we've come out stronger.

**Operator**

(Operator Instructions) There are no further questions at this time. So I would like to turn the floor back over to Joe Shiffler.

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

All right. Thank you, Christina, and thanks, everyone, for listening. There will be a replay of this call available on our website, [investors.power.com](http://investors.power.com). Thanks again, and good afternoon.